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In Balance:
Predicting Debt Repayment Performance on Orderly Payment of Debts

by

©

Patricia Louise French

A thesis submitted to the Faculty of Graduate Studies and Research in partial fulfillment of the requirements for the degree of Master of Science

in

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Abstract

The purpose of this research was determining efficacy of socioeconomic factors as predictors of debt repayment performance on the Orderly Payment of Debts Program (OPD) legislated under the Bankruptcy and Insolvency Act. The sample included 325 closed OPD files administered by Credit Counselling Services of Alberta. Comparative analyses identified significant differences between paid in full and defaulted participant sub-samples on socioeconomic factors, six of which were effective performance predictors. Three of the four multivariate analysis models were significant (p. < .05) predicting between 27% and 46% of variability: Debt Repayment Status, Program Length Score, and Program Duration Score. The model for Debt Repayment Score was not significant. Socioeconomic factors were valuable predictors of debt repayment performance. In particular, planned program length and prior experience with poor quality debts were related to all three significant models and were detrimental to debt repayment performance. Implications for practice were explored.

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I would like to extend my sincere gratitude to the Board of Directors, Executive Director Fran Smith, and my Colleagues of Credit Counselling Services of Alberta Ltd. for their enthusiastic support and encouragement of this project, once again demonstrating an ongoing commitment to client *success* through knowledge, skills, tools, and support. Thank you for asking the question,

"What can I do today to make
things better for our clients?"

I would also like to thank my supervisor, Dr. Janet E. Fast, for her leadership and guidance throughout this project, and for challenging me to achieve my goal of informing practice within the field of financial counselling.

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Introduction

The purpose of this research is to identify factors associated with debt repayment performance and to discover whether socioeconomic factors can be employed to predict debt repayment performance on Orderly Payment of Debts (OPD).

Credit has evolved into a fundamental component of consumer culture in today's marketplace. Unfortunately, whether due to choices or circumstances, many consumers have suffered negative repercussions from this rapid and dramatic evolution and find themselves in serious financial difficulty. As a result, consumers need options to recover financially. Orderly Payment of Debts (OPD) is a debt repayment program available to insolvent Alberta consumers experiencing debt management problems. Most, but not all, insolvent consumers repay their debts on the OPD program.

At this point no research on the population of OPD participants has been conducted. Therefore, there is immense opportunity for exploration. With so much room for meaningful research the challenge was to determine the project that would provide a solid foundation for ongoing investigation. At a fundamental level, what characterizes the individuals and households on the OPD program? To start, an examination of socioeconomic characteristics of the population of OPD participants was required to establish a baseline of knowledge about the population. From this basic understanding, comparisons may be made with other insolvent groups in the research literature as well as the general Canadian population. An initial analysis of the OPD population can act as a springboard to investigate areas of concern held by practitioners responsible for the administration of the OPD program.

From a practitioner's perspective the issue that draws foremost consideration is debt repayment performance on OPD. Debt repayment performance, the degree to which debt payments are made in full and on time, is a significant facet of the Orderly Payment of Debts (OPD) program. The factors related to debt repayment performance on OPD have not been examined and are unknown. A critical question is what determines debt repayment performance on OPD, since debtors and creditors stand to benefit from successful debt repayment through OPD.

Justification

While program participants are of primary concern, Credit Counselling Services of Alberta Ltd. (CCSA), creditors, and clients all are in a position to gain from successful debt repayment performance on OPD. Clients who complete their OPD programs repay their debts, satisfy their creditors, and demonstrate their capacity for and commitment to debt repayment. Once free from the burden of debt, participants are in a position to build savings and reach other financial goals that may include rebuilding credit. Unsuccessful debt repayment performance resulting in default on OPD has far-reaching effects. The effect of default on OPD is most serious for the client. When an OPD program is finalized in court, with a Consolidation Order, a stay of proceedings is in effect that prevents participating creditors from starting or continuing any legal actions such as suing or issuing garnishees. When a program is defaulted, the stay of proceedings is lifted, and creditors may resume collection and/or legal action, and can request judgment in court against the client. Resumption of debt collection practices by creditors can result in extreme financial pressure and may ultimately force the client to declare personal bankruptcy.

Creditors participating in the OPD program also are stakeholders affected by program defaults. When a program ends in default, disbursements from the client end and lenders must again commit to the financial and time demands of debt collection to recover outstanding balances. While the financial loss to large lenders such as banks and finance companies may not be very great, the impact on small lenders may be particularly serious. Creditors such as individuals and small businesses may not have the means and ability to continue to pursue the borrower and may be forced to accept the loss. More successful client programs lead to more satisfied lenders.

As for the agency, CCSA invests a great deal of time in the set-up and maintenance of programs for clients. As a not-for-profit agency, CCSA's resources are limited. From a resource management perspective, knowledge of the factors that affect debt repayment performance on OPD would allow those resources to be directed for maximum cost-effectiveness and client benefit. For CCSA, client defaults result in lost revenue from the 15% levy paid by creditors for participation in the program. In addition, CCSA's record of completed debt repayment programs no doubt encourages future referrals to CCSA for the OPD program and other services. Efforts to decrease default rates can serve to further the reputations of both the OPD program and the agency and thereby build demand for CCSA's services.

Insolvency Programs in Alberta and Canada

Information about legislative programs for managing insolvency in Alberta places the OPD program in context. In Alberta three legislative options are available to insolvent consumers: Orderly Payment of Debts (OPD), Consumer Proposal, and Bankruptcy (Houlden & Morawetz, 1999). All three options are legislated under the federal Bankruptcy and Insolvency Act (Houlden & Morawetz, 1999). The degree of the client's hardship, based on careful analysis of income, expenses, assets, and liabilities, determines which legislative option is the most appropriate.

The Bankruptcy and Insolvency Act has two fundamental intentions: to give the debtor relief from the burden of his/her debts, and to provide the debtor an opportunity for financial rehabilitation (Houlden & Morawetz, 1999). The rehabilitation aspect of the Bankruptcy and

Insolvency Act is accomplished through mandatory counselling in Canada for filers of Bankruptcy (Berry, 1994; Houlden & Morawetz, 1999; McGregor & Berry, 1997a; McGregor & Berry, 1997b; McGregor & Berry, 1995) and Consumer Proposals (Houlden & Morawetz, 1999). Similar opportunities for counselling are afforded to filers of OPD with ongoing individual practitioner support and budgeting workshops. Bankrupts felt counselling improved "their knowledge of handling money, understanding causes leading to bankruptcy, keeping financial affairs in better order, and avoiding bankruptcy" (McGregor & Berry, 1997b, p.15), with the less educated reporting the greatest benefit.

Orderly Payment of Debts

Part X of the Bankruptcy and Insolvency Act outlines the Orderly Payment of Debts (OPD) alternative for consumers (Houlden & Morawetz, 1999). OPD is a process by which insolvent debtors who can no longer keep up with payments on their debts can agree to pay a fixed amount into court to be disbursed to participating creditors on a pro rata basis (Houlden & Morawetz, 1999). The payment amount is determined with professional guidance during a thorough financial assessment. OPD is an option for the least severe insolvency situations. Under OPD clients must have the ability to repay debts within a reasonable period of time; a period of four years is used as a guideline. In effect, OPD "rewrites" the debtor's arrangement with creditors based on their current financial ability to make debt payments. Ability is defined as the amount of monthly net income a debtor has remaining after total monthly expenses are covered, and is determined during an assessment with the aid of a debt counsellor. Total monthly expenses include regular monthly expenses such as food, housing, and transportation in addition to a 1/12 portion of irregular and annual expenses such as vehicle maintenance, medical expenses, and clothing. This section of the Act does not rule out filing a Consumer Proposal or Bankruptcy should the debtor's circumstances not permit the continuation of their debt repayment program (Houlden & Morawetz, 1999). According to the Bankruptcy and Insolvency Act, provinces and territories can choose whether or not to accept Section X (Houlden & Morawetz, 1999). OPD legislation is in effect in British Columbia, Alberta, Saskatchewan, Manitoba, Northwest Territories, Nova Scotia and Prince Edward Island (Houlden & Morawetz, 1999). Credit Counselling Services of Alberta Ltd. (CCSA) administers the OPD program in the province of Alberta, acting as an agent of the Clerks of the Court of Queen's Bench of Edmonton and Calgary. CCSA, a not-for-profit agency, assumed administration of the program from the provincial government in May 1997. The mission of CCSA is "to educate Albertans in personal money management and the wise use of credit and provide alternatives for individuals and families facing financial crisis" (CCSA, 2002). Not all provinces proclaiming the legislation actually offer OPD programs and thus availability to consumers is limited. However, some private credit counselling companies offer an informal alternative to fill the gap in those provinces. Under the OPD program, between 1976 and 1994 $132 million was distributed to creditors from all provinces combined ($28.8 million in Alberta), with $13.5 million repaid in 1994 alone (Industry Canada, 1996). From May 1997 to December 2001 in Alberta $19,131,421 was distributed to creditors under OPD (CCSA, 2002). In provinces that have not proclaimed the legislation or do not offer OPD programs, insolvent individuals who might otherwise have opted to repay debts through OPD (if available), file for bankruptcy or, in smaller numbers, Consumer Proposal. Therefore, some OPD clients may share some characteristics with certain filers of Consumer Proposal or bankruptcy.

Consumer Proposal

The second option available to Canadian consumers under the Bankruptcy and Insolvency Act is a Consumer Proposal (Houlden & Morawetz, 1999). A Division II Consumer Proposal allows individuals or couples owing consumer debt of $75,000 or less "to negotiate with their creditors for the reduction [in amount of debt] or extension of the time for payment of their debts" (Houlden & Morawetz, 1999, p. 228). "'Proposal' is defined by s.2(1) to include a proposal for composition, for an extension of time or a scheme of arrangement" with creditors to settle debts (Houlden & Morawetz, 1999, p. 175). It allows an insolvent person to lengthen the time allowed to pay off the debts, reduce the amount to be paid to the creditors, or both (Houlden & Morawetz, 1999). Based on their capacity to make payments toward debts, consumers with a debt burden too great to resolve through OPD, and too modest to make an assignment in bankruptcy, may consider filing a Consumer Proposal. Consumer Proposal filings have increased significantly. In 1998 7,155 Consumer Proposals were filed nationally, up from 1,791 in 1993, an increase of 400% (Office of the Superintendent of Bankruptcy, 2000). A smaller increase was seen in Alberta with consumer proposals up from 262 in 1993 to 552 in 1998 (Office of the Superintendent of Bankruptcy, 2000), perhaps due in part to availability of the OPD program.

Bankruptcy

Bankruptcy is a legal process allowing the debtor to receive a discharge from his/her debts and the creditors to receive the proceeds from the sale of the debtor's property (Houlden & Morawetz, 1999). Bankruptcy is the option of last resort available to the most severely indebted consumers or those consumers with low or no capacity to repay.

Over the past 10 years consumer bankruptcies have increased dramatically in Canada. In 1988 there were 25,817 bankruptcies in Canada, 2,546 of which were filed in Alberta (Office of the Superintendent of Bankruptcy, 2000). In 1998 there were 75,465 bankruptcies in Canada; 8,110 were filed in Alberta (Office of the Superintendent of Bankruptcy, 2000). The number of bankruptcies reached a peak in 1997 in both

Canada (85,297) and Alberta (9,916) (Office of the Superintendent of Bankruptcy, 2000). Absolute numbers do not adequately demonstrate the true rate of bankruptcy in Alberta and Canada. In 1996 the national bankruptcy rate was 2.7 per 1,000 population and Alberta's overall rate was higher than the national average at 3.6 per 1,000 population (Office of the Superintendent of Bankruptcy, 2000). Rates for Alberta's major centres per 1,000 population in 1996 were as follows: Calgary (4.2), Camrose (2.6), Edmonton (5.1), Fort McMurray (3.4), Grand Centre (2.5), Grande Prairie (4.1), Lethbridge (4.9), Lloydminster (1.7), Medicine Hat (5.2), Red Deer (4.2), and Wetaskiwin (3.4) (Office of the Superintendent of Bankruptcy, 2000). Higher rates of filings in an area may be indicative of a poor local economy.

Every effort must be made to maximize the rewards to clients, creditors, and CCSA by minimizing program default. When clients are successful, CCSA receives the proceeds from the creditor levy for the duration of the program, creditors are repaid, and consumers are freed from debt, develop money management skills, and learn to function without consumer credit. Examination of socioeconomic characteristics associated with program success and failure may be a critical first step to achieving improved debt repayment performance on OPD.

Literature Review

The purpose of this research is to identify factors associated with debt repayment performance and to discover whether socioeconomic factors can be employed to predict debt repayment performance on Orderly Payment of Debts (OPD). This review reflects on literature that lends insight into the factors that influence debt repayment performance on OPD. The literature search failed to uncover any specific studies related to debt repayment performance on legislated or non-legislated consumer debt repayment programs for financially overburdened consumers. Therefore, the literature on credit, debt, insolvency, and economic stress from the consumer behaviour, financial counselling and education, and psychology disciplines is reviewed.

The literature is reviewed in four main sections: credit, debt, default, and insolvency. First, research that established characteristics of the credit user will be examined. Second, research on debt, characteristics of the debtor, and stress and coping with debt will be considered. Third, research that studied delinquency and default will be summarized. Finally, literature on causes of insolvency and options for insolvent consumers will be reviewed. The rationale for this arrangement is one of progression over time. To be insolvent an individual must have first been in debt, and to be in debt, an individual must first have used credit. The suggestion is of subsets of consumers, each group being smaller than the one that precedes it. From all consumers comes the credit user group, a subset of credit users become the debtor group, a subset of the debtor group will experience difficulty with debt repayment and become delinquent or default, and a subset of delinquent or defaulting debtors become insolvent. Understanding each subset may assist in revealing possible factors that determine debt repayment performance on OPD. To review the literature related only to stages where debtors are in financial difficulty may discount the grounds of the difficulty, consumer borrowing. All OPD participants began as credit users, passed through the subsequent stages of being debtors and experiencing trouble with debt repayment, before ultimately reaching insolvency. OPD clients would thus share characteristics with samples studied at each stage in the progression to insolvency, but would be expected to be most similar to those debtors experiencing problems with debt repayment or becoming insolvent.

For the purpose of this review, credit is defined as "an arrangement to receive cash, goods or services now and pay for them in the future" (Staten, 1992, p. 119). Most critical for the concept of credit is that it is "characterized as a postponement of payment that is agreed, indeed planned, by both borrower and lender" (Lea, Webley, & Walker, 1995, p. 681). Credit will refer to the instrument of borrowing today and repaying at some future date, within a specified time period, or along defined terms. Consumer credit is defined as all credit extended to the consumer except for the household mortgage (Canner & Luckett, 1991; White, Downes, &

Goodman, 1995; Staten, 1992). Debt is accumulation of monies owing by way of consumer credit usage. Delinquency is the "involuntary inability to make payments which the payee expects to be made immediately" (Lea, Webley, & Walker, 1995, p. 681), or missed payments. Default is the "failure of a debtor to make timely payments of interest and principal as they come due" (White, Downes, & Goodman, 1995, p. 118). Default as it relates to literature reviewed will be defined as failure to make payments on outstanding debts as prescribed in the original credit arrangement extending beyond a couple of months. Default, as it relates to OPD, under Section X of the Bankruptcy and Insolvency Act, is when the debtor has missed the equivalent of 90 days of payments on the program.

Credit

To need the OPD program, clients must first have accumulated debt through access to credit. According to the Bank of Canada consumer credit outstanding is up 300% since 1977 and up 3000% since 1961(as cited in Schwartz & Anderson, 1998).

Credit contracts can be divided into fixed installment credit and flexible installment credit (Ranyard & Craig, 1995). Fixed installment credit is a repayment arrangement based on equal payments for a predetermined term at a defined annual percentage rate of interest (APR) (Ranyard & Craig, 1995). OPD is executed in a way that can be fairly compared with fixed installment credit as OPD has a monthly payment, a

5% APR, a specified duration, and places demand on the household budget. Flexible installment credit is more difficult for consumers to assess as it has variable payments over an undefined term, a set minimum payment, and interest is added at regular intervals (Ranyard & Craig, 1995; Ranyard & Craig, 1993).

Consumer Credit Behaviour

Consumers purposefully apply for credit, and so must assess credit and credit products to some degree, an analysis that may also occur when evaluating options for managing debt or insolvency such as OPD. Research has examined willingness to use credit (Yieh, 1997), how consumers attempt to evaluate and discriminate among various credit contract conditions and costs (Lewis & van Venrooij, 1995; Ranyard & Craig, 1995; Ranyard & Craig, 1993) and consumer decision-making behaviour (Anderson, 1997). This literature is reviewed to bring some understanding to the thought and decision-making process preceding and surrounding credit use. Uninformed or unsound decision-making with regard to credit products and credit management may leave consumers vulnerable to financial difficulty.

Prior to any credit application there must be a willingness to use credit. Factors found to be associated with a household's willingness to borrow include age, income, debt level, and attitude toward taking risks (Yieh, 1997). A convex curvilinear relationship was found between age and willingness to borrow, so middle-age households were most willing use credit (Yieh, 1997). Willingness to borrow was positively related to income, net worth, debt burden, and risk taking (Yieh, 1997).

Many consumers who are willing to borrow will seek credit. Research findings suggest that consumers make sense of credit agreements and subsequent repayment obligations using mental heuristics of the total account and the recurrent account (Ranyard & Craig, 1995). It was found that "mental accounts are 'natural' representations which serve useful functions in personal budgeting; they help consumers control the balance between income and expenditure over indefinite time periods" (Ranyard & Craig, 1995, p. 449). The total account, or the heuristic evaluating the total cost of an installment loan, considers the future expenditure but may discount the present stress the loan places on the budget (Ranyard & Craig, 1995). The recurrent account heuristic balances the monthly budget periods over time by appraising the monthly expenditure for the loan, but may discount the total cost of credit (Ranyard & Craig, 1995). Consumers will experience the best outcome when evaluating an installment agreement using both heuristics, as the weaknesses of each can be countered (Ranyard & Craig, 1995). Because of the functional similarity between OPD and fixed installment credit, consumers' difficulty with estimating the total and monthly cost or duration of loans, or with managing the household budget, may carry over to OPD, and may be reflected in poorer repayment performance. Participants who focus on the OPD payment, which may appear manageable compared to their debt obligations before the program, may discount the endurance necessary or the total cost of the program commitment. If their focus is the reduced time required to retire their debt on the program, the monthly demand on the household budget could be overlooked. Participants should be counselled to reflect on both the total account and the recurrent account when OPD is chosen for debt repayment.

For OPD, consumers must also choose to apply and, if suitable for the program, decide to proceed with OPD. The decision to go on the OPD program to deal with personal debts in many cases requires a lengthy commitment to monthly payments. Whether consumers demonstrate rational versus irrational consumer decision-making behaviour may influence debt repayment performance on OPD. Andersen (1997) described a preliminary theoretical model of a credit lifestyle and distinguished rational consumer behaviour from irrational consumer behaviour. "Rational consumers consider and plan for the long-term effects of their choices while irrational consumers consider only the current results of their decisions" (Andersen, 1997, p.123), but rational consumers are not necessarily more informed or more reasonable than irrational consumers (Andersen, 1997). Irrational consumer behaviour in relation to credit use could lead to debt acceleration.

> If debt payments are large enough, the available income will be reduced to a point below the basic living level. At this

> point the irrational consumer will begin defaulting on debt obligations. Depending on the credit limit, this situation could actually occur while the consumer still has borrowing capability. The irrational consumer may attempt to use credit to repay debt. However, without another source of income, default (and probably bankruptcy) is inevitable (Anderson, p.123).

It may be that clients experienced financial difficulty prior to OPD in part as a result of irrational credit behaviour. That is, credit may have been used to compensate for lack of income with which to keep up with both regular and irregular expenses. Irrational consumer behaviour may also be seen when consumers underestimate budgetary expenses in an effort to qualify for OPD. Constant demands from creditors for payment may urge consumers to apply for OPD to stay collection tactics. If consumers focus more attention on stopping debt collection practices than on total or monthly cost or duration of debt repayment, they may underestimate the extent of the OPD commitment. It is these consumers who may demonstrate poorer repayment performance on OPD by meeting any shortfall in household obligations through delinquency on OPD payments.

One way in which credit products vary greatly is the interest rate charged, which is a reflection of the degree of risk the creditor assumes. The higher the rate of interest the creditor charges, the higher the lender rates the risk of the borrower defaulting on the obligation. The greater the value of security (assets) the borrower can pledge to offset the lender's risk, the lower the interest rate the lender charges. Demand for higher risk borrowing stems from consumers' varying experience with credit. Consumers with no prior borrowing experience or poor credit history may need to rely on lenders catering to higher risk borrowers.

Credit Cards

Use of credit cards amongst consumers has increased in North America in recent decades (Lindley, Rudolph, & Selby, 1989; Canadian Bankers Association, September 1999; Interac Association, 1999; Canadian Bankers Association, February 1999; Staten, 1992; Dunkelberg, 1989). Dunkelberg (1989) wrote: “the 1,200 percent growth in revolving credit outstandings since 1975 can be attributed primarily to the attractiveness of this new payment device” (p. 20). A greater number of credit cards increases the potential for more debt. Spreading debt among several cards may lessen the appearance of credit card debt burden, in effect deceiving users about the total debt they are carrying. Consumers may not recognize the true cost of credit card use imposed by carrying balances at high interest rates. Consumers carrying credit card balances would be more vulnerable to financial problems resulting from changes in financial circumstances.

As compared to people who had not used any credit cards in the recent month, people who had used credit cards were younger, more educated, more at ease with using credit, and held considerably more debt (Choi & DeVaney, 1995). Studies have examined the relationships between credit knowledge and attitude toward credit and subsequent credit card use (Danes & Hira, 1990). A higher degree of credit knowledge was associated with younger, more educated, and higher income consumers (Danes & Hira, 1990). More knowledge about credit also was associated with higher credit card holdings and an increased likelihood to accumulate finance charges (Danes & Hira, 1990), as was being younger (Lim & DeVaney, 1999).

Research has examined socioeconomic characteristics to profile holders of different types of credit cards (Choi & DeVaney, 1995; Lindley, Rudolph, & Selby, 1989). Common types of credit cards include bank credit cards and retail credit cards (Staten, 1992). Choi & DeVaney (1995) compared retail and bank credit card holders and found respondents with both types of credit cards held more cards than credit card holders who used retail or bank cards exclusively.

Bank credit card use in Canada has continued to climb with 35.3 million MasterCard and Visa credit cards in circulation, an increase of 15.9 million cards in 10 years (Canadian Bankers Association, February 1999). Total MasterCard and Visa outstanding balances reached $23.9 billion as of year-end 1998, up from 14.4 billion in 1988 (Canadian Bankers Association, February 1999). The average sale on a credit card has increased 31% in ten years (Canadian Bankers Association, February

1999). Preference for credit cards as a method of payment has also increased in Canada with 19% of purchases being made with credit cards in 1999, up from 16% in 1995 (Interac Association, 1999), perhaps due in part to a 3.4% reduction in credit card interest rates since 1990 (Canadian Bankers Association, September 1999). Credit cards as a method of purchase continued to grow even with Interac Direct Payment (IDP) use increasing from 10% to 38% of purchases over the same time period (Interac Association, 1999). Between 1995 and 1999, cash use has decreased 19% and cheque use has decreased 9% as methods of payment (Interac Association, 1999). Retail-only credit card use was positively related to age and more frequently found in households headed by females and those not professionally employed (Choi & DeVaney, 1995). Bank-only credit card use was associated with male-headed households, renters, and an unfavourable opinion of credit (Choi & DeVaney, 1995). If credit card holders had used both card types in the past month, they were more likely married, male, and professionally employed (Choi & DeVaney, 1995).

Credit card holders determine how they will use their credit cards. Convenience credit card users employ credit cards as a method of payment, not finance, pay the accumulated balance in full at the end of the specified period, and do not incur finance charges (Danes & Hira, 1990; Armstrong & Craven, 1993; Staten, 1992). Convenience credit card users have been shown to be older, to possess more education, and have higher income than average bank card holders (Lim & DeVaney, 1999). Revolving credit card users, also referred to as installment users, carry a balance on their cards from month to month as a means to secure short-term financing and finance charges are levied as a cost of borrowing (Danes & Hira, 1990; Armstrong & Craven, 1993; Staten, 1992). Low rate bank credit cards (around 10% interest) were introduced in 1992 to cater specifically to consumers who carry balances on their credit cards from month to month. The demand for a low rate product may be indicative of greater willingness or tendency for consumers to carry a balance. Danes and Hira (1990) found that the less a consumer understood about credit, the more likely s/he was to believe credit cards should be used for convenience rather than installment purposes (Danes & Hira, 1990). This seems opposite to logic. It is surprising that the credit user who is less knowledgeable, possibly about consequences of interest charges from carrying balances, chooses to protect himself from negative after-effects of revolving credit use. It is fair to say that OPD clients with credit card debt are revolving credit users.

Credit card use has been shown to decline with age (Danes & Hira, 1990; Zhu & Meeks, 1994; Wasberg, Hira, & Fanslow, 1992). Adolescents are among the youngest credit users. Research showed that teens are exposed to borrowing through use of their own or their parents' credit cards (Danes, 1992; Dolan & Knight, 1995). Findings suggest that children may not be socialized adequately by their parents to handle credit

(Danes, 1992; Dolan & Knight, 1995). Financial socialization "is the process of acquiring and developing values, attitudes, standards, norms, knowledge, and behaviors that contribute to the financial viability and well-being of the individual" (Danes, 1992, p.16). The majority of parents were shown to believe that children are not ready to be responsible for a credit card, personal loan, or establishing a credit history until they are 18 years of age or older (Danes, 1992). Since most parents believe these advanced financial responsibilities were for adult children, they may not make efforts to socialize their children about credit use before their children begin to access credit.

Younger credit users are represented in part by post-secondary students. Several studies have examined credit card holding and usage of college students (Armstrong & Craven, 1993; Hayhoe et al., 1997; Bruin, Muske, & Swift, 1997). Most college students were found to hold at least one credit card and often several different credit cards (Armstrong & Craven, 1993; Hayhoe et al., 1997; Bruin, Muske, & Swift, 1997) and in some cases multiples of a particular credit card type, e.g., credit cards from several department stores (Armstrong & Craven, 1993). The majority of students carried a balance on a credit card from month to month (Armstrong & Craven, 1993; Hayhoe et al., 1997).

Many students exhibited patterns of credit card use that could lead to financial difficulty by possessing several credit cards, carrying credit card balances from month to month, making only the minimum payments, and ignorance of interest rates (Armstrong & Craven, 1993; Hayhoe et al., 1997), grace periods, and credit card limits (Hayhoe et al., 1997). Many students received assistance from parents to pay credit card balances (Hayhoe et al., 1997). Though it may have been simply a mechanism for parents to pay their children's education costs, it suggests that students did not, or would not, have the financial capacity to manage their debt burden alone.

Credit card holdings and credit card usage by households headed by someone 50 years of age or older was significantly related to characteristics of financial well-being including household income, home ownership, and net worth (McGurr, 1995). Credit card holdings were positively related to income, net worth, employment, and home ownership with a mortgage, but negatively related to home ownership with mortgage paid off (McGurr, 1995). Smaller households, married households, and households with a positive view of credit were more likely to possess credit cards (McGurr, 1995). Credit card holdings were also associated with healthier household members and more educated household heads (McGurr, 1995). An inverse relationship was found between age of household head and credit card holdings. Credit card holdings decrease with age (McGurr, 1995) as does credit card use (Danes & Hira, 1990; Wasberg, Hira, & Fanslow, 1992). It is unclear from the literature whether the decrease in credit card usage with age is a function of less need for credit, reduced ability to obtain credit, decreased health (McGurr, 1995), differences in attitudes toward credit use.

Home Equity Lines of Credit

Socioeconomic factors associated with borrowing on home equity lines of credit have also been studied (Hong & Yu, 1995; Su & DeVaney, 1999). A home equity line of credit is a unique form of credit available to homeowners, and is essentially a revolving credit second mortgage agreement allowing consumers to borrow against the accumulated value or equity of the home at a lower APR than credit cards (White, Downes, & Goodman, 1995). Unlike credit card use, which has been shown to decline with age (Danes & Hira, 1990; Zhu & Meeks, 1994; Wasberg, Hira, & Fanslow, 1992), borrowing on a home equity line of credit was positively associated with age (Hong & Yu, 1995). Since the amount that can be borrowed on a home equity line of credit is dependent on the amount of equity in a home, an older homeowner would have a higher capacity of borrow because s/he would likely have been paying on his mortgage longer and therefore have more equity (Hong & Yu, 1995; Su & DeVaney, 1999). Another study found a curvilinear relationship between life expectancy and home equity lines of credit (Su & DeVaney, 1999). A longer life expectancy was related to higher borrowing (Su & DeVaney, 1999). The amount borrowed on a home equity line of credit was negatively associated with household size in young households and higher education, but positively related to home equity, income, household size in elderly households, and being healthy (Hong & Yu, 1995). In contrast, Su and DeVaney (1999) recently found education to be positively related to amount borrowed on a home equity line of credit and did not find household size to be a significant predictor.

Vehicle Credit

Vehicle credit via lease or loan is a common form of household financing. A study of socioeconomic characteristics of consumers with credit agreements to lease and finance vehicles found leasing, as compared to financing, was associated with more expensive vehicles, older households, households with higher education, lower likelihood of being married, higher incomes, and shorter contracts (lease contracts averaged 23 months and finance contracts averaged 54 months) (Rubio-Sanchez & DeVaney, 1999). Interestingly, the difference in monthly payment between leasing and financing was insignificant (Rubio-Sanchez & DeVaney, 1999) even though leasing was promoted as a cheaper alternative to financing (Adler, 1997, as cited in Rubio-Sanchez & DeVaney, 1999). Rubio-Sanchez and DeVaney (1999) and Hogarth and O'Donnell (1999) agreed that vehicle leasing contracts are more complex than loans for consumers to comprehend. Moreover, consumers who were between 18 and 35 years of age, 65 years of age or older, female, or minorities experienced more difficulty understanding lease contracts

(Hogarth & O'Donnell, 1999). As will be shown, insufficient comprehension or evaluation of credit contracts can lead to financial problems.

Alternative Financial Sector Credit

The alternative financial sector comprises financial services available outside the conventional banking trade (Chandler, 1993; Swagler, Burton, & Lewis, 1995; Hogarth & O'Donnell, 1997). These credit granting services, appealing particularly to lower-income consumers, include pawnshops, rent-to-own companies, cheque-cashing businesses, payroll advance lenders, and finance companies (Chandler, 1993; Swagler, Burton, & Lewis, 1995; Hogarth & O'Donnell, 1997). The alternative financial sector (AFS) provides consumers whose credit needs are not met through traditional lenders access to borrowing, albeit on very costly terms (Hogarth & O'Donnell, 1997; Swagler, Burton, & Lewis, 1995). Consumers who do not qualify to borrow from traditional lenders because they have poor or no credit histories, low income, irregular employment records, or have already borrowed as much as the traditional lenders will allow, may turn to AFS lenders. For low-income couples, access to traditional banking services was greater for those with more schooling (Lewis & Godwin, 1994). AFS borrowing is an indicator of inability to make ends meet on current income and many users become AFS dependent (Swagler, Burton, & Lewis, 1995). While it may be a financial last resort for some, “for many consumers from other countries or cultures, a pawnshop may be a familiar and acceptable source of credit” (Chandler, 1993, p. 224).

In summary, credit gives consumers the capacity to amass debt. Credit use has increased dramatically over the past quarter century. Credit use is widespread and has been found to be associated with both attitudinal and socioeconomic variables. From the group of credit users will come a subset of debtors. The research has shown that the credit user group is broad and comprises most predominantly consumers with a willingness to borrow, who are younger, more educated, more comfortable with credit, and carry more debt. Credit card users with both bank and retail credit cards possess the greatest number of cards. Credit cards are used primarily for convenience or installment purposes, with younger users demonstrating a willingness to carry debt by commonly using cards for short-term financing. It should follow that the prevalent sector of credit users should dominate the subsequent debtor subset.

Debt

Consumer debt is defined as all debt held by the consumer except for the household mortgage (Canner & Luckett, 1991; White, Downes, & Goodman, 1995; Staten, 1992). Mortgage debt is defined as any debt using the home as collateral, but is primarily for the purchase of real estate (Canner & Luckett, 1991). For the purpose of this review of literature "debt" should be interpreted as consumer debt unless otherwise stated.

When carrying debt, "future consumption is reduced by the necessity of debt repayment even though they [consumers] have stopped or reduced borrowing" (Bryant as cited in Zhu & Meeks, 1994, p.418). Debt is a result of past expenditure, so debt payments reduce the funds available for current and future spending. The result is a necessary decrease in spending ability by the cost of debt payments.

This section will explore literature on socioeconomic, psychological and behavioural factors related to debt, types of debt, financial over-commitment, and stress and coping with debt. OPD clients pass from merely accessing credit to accruing debt. It is important to recognize that not all debt is problematic or results in financial difficulty. Debt becomes problematic when the consumer is unable to keep up with obligations or is fully extended and thus vulnerable to any increase in expenses or decrease in income. Some borrowers will accumulate debt and have no difficulty managing. A few borrowers may advance to debt problems.

Socioeconomic Factors

Consumer debt was found to be a meaningful predictor of financial problems (Hira & Noh, 1995), and often found to be dependent on such socioeconomic factors as age of the money manager, net income, net worth, personal comfort with debt (Wasberg, Hira, & Fanslow, 1992) and amount of savings (Livingstone & Lunt, 1992). High total debt burden was associated with younger households, higher income, higher assets (Wasberg, Hira, & Fanslow, 1992; Zhu & Meeks, 1994), and favourable attitudes toward credit (Lai & Zhong, 1992). However, one study of younger households found debt burdens negatively related to income (Lai & Zhong, 1992). Overall, consumer debt level is more comparable across income groups than mortgage debt level (Canner, Kennickell, & Luckett, 1995). Younger households more often used credit to make purchases when short of money, and were assessed more finance charges than older money managers (Wasberg, Hira, & Fanslow, 1992), which is consistent with their stage in the life cycle (Chen & Finke, 1996; Wasberg, Hira, & Fanslow, 1992; Zhu & Meeks, 1994) and propensity for child-related and employment-related emergency expenses (Zhu & Meeks, 1994). "Permanent income and life cycle theory predict that households expecting increasing incomes will borrow while young – experiencing a temporary, planned time interval where net worth will be less than zero" (Chen & Finke, 1996, p. 87). In contrast, another study found no relation between debt acquisition and disposable income, race, education level, or greater family demands, so higher numbers of younger debtors may not be due to life cycle stage but generations' differing attitudes toward debt (Livingstone & Lunt, 1992). Higher monthly debt obligations were found for money managers with pro-credit attitudes who were carrying higher balances on all credit cards, and had higher income.

Social and Psychological Factors

Beyond socioeconomic factors, the aggregation of economic, psychological, and social factors supported the idea of self-perpetuating debtor culture (Lea, Webley, & Levine, 1993; Lea, Webley, & Walker, 1995), and Lea, Webley, & Walker, 1995 stated:

Debt appears as part of a wider pattern of dysfunctional economic behaviour.

> A decline in financial status relative to parents, weak money management, and the use of expensive, low status credit sources are other, independent, parts of that pattern: poor money management seems to be particularly important. (p. 699)

Socially, debtors were more likely to have kinship with other debtors, feel they would not be rejected on the basis of their own debt situation (Lea, Webley, & Levine, 1993; Lea, Webley, & Walker, 1995), believe the financial position of their parents was comparatively better than their own, and be bothered by having less than others (Lea, Webley, & Walker, 1995). Debtors were more likely to possess shorter time horizons, miss appointments, and characterize themselves as being poorer money managers (Lea, Webley, & Walker, 1995). Lewis & Godwin

(1994) found low-income couples think financial difficulty is reasonable grounds to employ credit.

Accumulated debt strains the budget and thus can stress the members of the household. To prevent financial circumstances from worsening the household must be able to cope. Financial coping is defined as being able to contend with unanticipated expenses (Goeland & Nyhus, as cited in Walker, 1996). Research found "feelings of coping under financial strain did not rely heavily on income factors, as might have been expected, but rather on more behavioural and psychological variables" (Walker, 1996, p. 801). "Factors indicate that a more stable budget – one more resilient to changes in circumstances – coincides with perceptions of better coping, although it is difficult to say which comes first, the perception of better coping or the stability of the budget" (Walker, 1996, p. 802).

Economic stress is the resulting cumulative effect of financial difficulty on the household's quality of life caused by negative change in economic demands and/or resources (Aldwin & Revenson, 1986). Economic stress has also been identified as a cause of debt (Lea, Webley, & Levine, 1993). Evidence showed poor mental health was both a cause and an effect of economic stress (Aldwin & Revenson, 1986). Aldwin and Revenson (1986), in a study of the effects of mental health on economic stress, stated:

> In times of economic contraction, vulnerable individuals (e.g., those in poorer mental health) may experience economic stress. Depending upon stressor properties such as intensity and duration, mental health may further deteriorate, increasing the likelihood of future economic stress, especially during times of continued economic contraction, and so forth. (p.164)

Psychological symptoms predicted economic stress more accurately than economic stress predicted psychological symptoms, with reductions in psychological functioning associated with recent and long-term economic stress (Aldwin & Revenson, 1986). Psychological well-being was higher for those with economic support from a spouse or ex-spouse, and lower for those whose financial status was unlikely to improve, and those with more dependents (MacFadyen, MacFadyen, & Prince, 1996). Based on these findings, it could be assumed that prolonged indebtedness and lack of economic support would effect household mental health most detrimentally and thus may have greater impact on capacity to uphold financial obligations. For participants, a perceived occurrence or reoccurrence of economic stress may have a bearing on debt repayment performance.

One particular segment of households was found to experience more difficulty coping under financial strain (Rupured & Payne, 1993). Low resource households were defined as "individuals or families with limited income and/or education struggling to make ends meet" (O'Neill, 1994, p. 121). Issues for low resource households frequently centre around eight dimensions as described by Rupured and Payne (1993): (1) crisis enmeshment or constant crisis, (2) short-term time horizon, (3) stress, (4) limited choices due to social or geographical isolation, (5) limited access to positive role models, (6) low self-esteem, (7) pervasive hopelessness, and (8), external locus of control. External locus of control is associated with all seven dimensions (Rupured & Payne, 1993). Locus of control is "the extent to which one believes his or her actions influence and affect their own destiny, whether an individual has control over his or her situation is irrelevant" (Rupured & Payne, 1993, p.257). External locus of control then is the perception that the control is outside the individual, not within (Rupured & Payne, 1993). Thus the individual feels he or she is not in control of the current situation and is controlled by external factors. If limited resources can make a household vulnerable, then the lack of the resource of credit management knowledge could give rise to financial risk. It may also be that limited resource households would possess the most barriers to successful debt repayment on OPD.

Causes of Debt

Debt will grow when outputs from a system exceed the inputs, or when expenses exceed income. The factors consumers perceived led to their indebtedness reflect a complex system of causes (Lunt & Livingston, 1991). Perceived causal factors included commercial pressures, social pressures, greed, lack of self-control, the credit system, pleasure, personal inadequacy, crisis, and external problems (Lunt & Livingston, 1991). It is believed that these factors act in combination to cause debt (Lunt & Livingston, 1991).

Credit is a tool that can produce and support the imbalance resulting from overspending. For this reason literature on certain key household expenses and their possible relationship to debt is included in the review. Debt may result from consumers' inaccurate perception of income and/or expenses (Kollmann, 1992; Williams, 1999; Zhou & Williams, 1997).

Some expenditures consume large portions of household income. Housing, transportation, and education are three such expenses for which consumers often borrow; i.e. mortgage, vehicle leasing or financing, and student loans. Since these expenses can dramatically affect the household budget and add to debt burden, literature on the relationship between these expenditures and debt is reviewed. If too great a portion of the household budget is dedicated to major expenditures, then other household expenses may not be met. Consumers may employ credit to manage the income shortfall and then struggle to meet obligations. A downward spiral into debt and possibly delinquency or default on debts may be the ultimate result for some consumers.

Student loans resulting from financing postsecondary education is one common type of debt. Student loans are unique for consumers because they are credit granted well in advance of the time when repayment will begin, and granted without the consumer demonstrating a capacity to repay. Therefore financed education is expenditure levied against future, unproven income potential. The cost of a postsecondary education in Canada has increased 115% from 1980 to 1995 and therefore 1995 graduates owed on average 130% to 140% more debt than 1982 graduates after adjusting for inflation (Clark, 1998). Higher student loan balances at graduation was positively related to graduate age (Clark, 1998). With higher student loan balances following schooling necessitating higher monthly payments, the debt burden may be difficult to manage in conjunction with other budget demands.

Housing and transportation expenditures were demonstrated to have played a role in shortfalls in the monthly budget (Zhou & Williams, 1997; Oh, 1995; Williams, 1999; Jayathirtha & Fox, 1996). The higher the portion of net income consumed by housing and transportation expenses, the less disposable income remains for other spending.

Research suggested that housing should not exceed 30% of net income (Oh, 1995; Williams, 1999) with 60% of that cost for mortgage (principal and interest payments) and 40% for taxes, utilities, insurance, maintenance, and repair (Williams, 1999). Households that spend more than 30% of net income on housing can be said to have a rent burden

(Oh, 1995). Households with a rent burden were found to be older, to have lower incomes, and to spend less net income on many basic household expenses such as transportation and clothing (Oh, 1995). Renters were more likely to overspend on housing than homeowners (Jayathirtha & Fox, 1996).

Transportation cost includes public transportation, vehicle payment (lease or loan) and related finance charges, and vehicle usage expenditures including fuel, insurance, maintenance, repairs, license (Zhou & Williams, 1997), and registration. Zhou and Williams (1997) reported that transportation cost was positively related to housing expenditure and number of vehicles in the household, but no relationship was found between transportation expenditure or vehicle usage expenditure and income. Vehicle payments accounted for only 40% of total transportation cost with 60% of expenditure tied to vehicle usage (Zhou & Williams, 1997).

Jayathirtha and Fox (1996) found purchase of a vehicle increased the likelihood of a renter overspending on housing by five times and the likelihood of a homeowner overspending by seven times (Jayathirtha & Fox, 1996). It appears overspending on major expenses such as housing and transportation can be compounded. Underestimation of major expenses associated with housing or transportation could lead borrowers to accept mortgage or vehicle payments greater than can be managed (Williams, 1999; Zhou & Williams; Jayathirtha & Fox, 1996), and the resulting overextended budget may be "balanced" by borrowing. The significant influence of major expenses on the household budget and debt management can be extended to OPD. Higher major household expenses reduce income available for OPD payments and other household needs.

In summary, younger households were more likely to have debt, higher debt, lower income, and lower net worth in years that also coincide with further education, early careers, and children. Debtors had shorter time horizons and more liberal attitudes toward debt than did non-debtors. Households can deal better with economic strain with a stable budget and confidence in their capacity to cope. Debt as an economic stressor can be both cause and effect of poor mental well-being. A most important finding is that debt was not the result of a single cause but part of a complex system of causes. It may be assumed that economic stress could negatively influence debt repayment performance on OPD. OPD clients could face periods of economic stress over the course of their program and their ability to cope under financial strain may be tested. Clients unable to meet the economic challenges may become delinquent or default on OPD payments.

Delinquency and Default

Consumers who become delinquent and/or default on debt obligations are a very small segment of all consumers with debt. This section will address literature relating to repayment problems and prevention, delinquency, and default. Repayment problems are characterized by delinquency, default, and foreclosure (Godwin, 1999).

Repayment Problems

Financial behaviour has been shown to be reflected in repayment patterns (Lim & DeVaney, 1999). Repayment problems do not occur in most households with consumer debt. Most households (86%) reported that they were able to fulfill their debt obligations without late or missed payments during the previous year (Canner & Luckett, 1991). Several studies have attempted to define consumers who have experienced trouble with managing credit. Consumers who had experienced debt problems were found to exhibit "greater external locus of control, lower self-efficacy, viewed money as a source of power and prestige, took fewer steps to retain their money, displayed lower risk-taking and sensation-seeking tendencies, and expressed greater anxiety about financial matters" (Tokunaga, 1993, p.285), which may be caused by or result from financial difficulty (Lea, Webley, & Levine, 1993).

Socioeconomic characteristics of households with difficulty maintaining their obligations to their debts included lower education, being separated or divorced, having more children under 18 (Canner & Luckett, 1991), being non-white, having more members (Godwin, 1999), being younger (Godwin, 1999; Canner Kennickell, & Luckett, 1995), and having lower income and assets (Canner, Kennickell, & Luckett, 1995). Financially, households with repayment problems were more likely to hold mortgage, automobile, and durable goods debts at one time, were more often turned down for credit, held positive attitudes toward credit use (Godwin, 1999), had received financial aid from family or friends (Godwin, 1999, Hira & Noh, 1995), made only minimum credit card payments (Hira & Noh, 1995), and had a high ratio of total monthly debt payments to monthly income (Canner & Luckett, 1991).

Severity of payment problems can be measured by looking at the number of payments more than thirty days late or the number of occasions in a particular time period when payments were late (Canner & Luckett, 1991; Canner, Kennickell, & Luckett, 1995). Making payments a few days late was not an indicator of consumers with serious repayment problems (Tabor & Bowers, 1977) and, consistent with stage in the life cycle, missed payments were more common in younger, lower- income, middle-income, and low net worth households (Canner, Kennickell, & Luckett, 1995).

The risk of debt repayment problems can be minimized. Emergency funds allow households to cope financially with the unexpected. Emergency funds have been examined in a number of studies. Adequate emergency fund holdings equal to three months of income as a hedge against a drop or loss in income or unexpected major expense were held by less than one third of households (Chang & Huston, 1995; Huston & Chang, 1997). Inadequate emergency fund savings were associated with younger households, households with less education, low home equity, larger households (Chang & Huston, 1995; Huston & Chang, 1997), single-parent households, black households (Huston & Chang, 1997) and households that did not anticipate any decrease in future real income (Chang, Hanna, & Fan, 1997). Income, occupation, employment status, and marital status were not significantly related to emergency fund holdings (Chang & Huston, 1995). Moreover, as one study found, "presence of adequate emergency fund in a household is related to wealth rather than 'need' for such an emergency fund" (Zhou, 1995). So it is the households shown to possess more debt that fall short in emergency fund holdings, and thereby could be at greater risk of financial problems from unexpected expenses or income reduction.

Delinquency

Research has demonstrated that consumer delinquencies follow a cyclical pattern with the changes in the overall economy (Canner & Luckett, 1991). Consumer delinquencies, and to a lesser extent mortgage delinquencies, increase as the economy slows down and moves into a period of recession, and delinquencies decrease again as consumers and lenders adjust practices to the recession (Canner & Luckett, 1991). Bowers and Crosby (1980) found that reduced ability to moderate changes in the economy and/or changes in personal circumstances is due to lower assets and financial reserves.

Canadian delinquency ratios for bank credit card accounts 90 days in arrears was 0.9% in 1998 and has been steadily below 1% since 1992 (Canadian Bankers Association, February 1999). While this may seem very low, when the rate of delinquency is multiplied by the total number of bank credit cards in circulation, in 1998 approximately 320,000 cards were delinquent over 90 days (Canadian Bankers Association, September 1999).

Reasons cited for delinquency included overextension and unanticipated circumstances (Canner & Luckett, 1991). Debtors have been shown to blame the credit system, credit convenience, high credit limits, and social pressure for problems with debt as well as lack of self-discipline and control, poor budgeting skills and practices, and materialism (Livingstone & Lunt, 1992). Consumers reported that they made up missed payments the following month by increasing income, decreasing expenses, liquidating assets, or borrowing funds (Canner & Luckett, 1991).

Default

When delinquency extends beyond a couple of months a credit agreement may be defaulted. A review of debtors' repayment performance revealed that delinquency was an indicator that warned of the default (Bowers, 1979). Warning signs of default on OPD may then also be seen through delinquency in OPD debt repayment performance.

Since repayment performance can signal default, Bowers (1979) suggested that intercepting these debtors with comprehensive education and counselling may reduce default and resulting losses to credit granting organizations.

Default on student loans in Canada occurred for 4% of the class of 1995 within two years of graduation (Clark, 1998). Repayment difficulties were blamed on the size of the debt burden and low employment income (Clark, 1998).

In summary, repayment problems, delinquency, and default were associated with high debt to monthly income ratios, lower income and assets, and a lack of financial security afforded by an adequate emergency fund. Lower income can lead to reduced ability to save for certain expenses and emergencies leading to credit use for purchasing and dealing with economic misfortune, and raising the risk of repayment problems, delinquency, and default. To link these data with the OPD framework, if the client is younger, does not have an emergency fund, has lower income and assets, and their OPD payment is high relative to household income, they may be more likely to be delinquent or default on payments.

Insolvency

A segment of consumers who experience delinquency or default on credit agreements become insolvent. Insolvency, according to the solvency ratio, is when liabilities exceed assets (DeVaney, 1993). An "insolvent person" is defined under the Bankruptcy and Insolvency Act as someone who works or lives in Canada, owes at least one thousand dollars, cannot maintain debt payments when due or has quit making debt payments, and whose liabilities exceed assets (Houlden & Morawetz, 1999). Some of the insolvent consumers will seek financial assistance through legislated alternatives for dealing with debt (i.e., bankruptcy), and others may be technically insolvent but still managing financially. This section will probe literature on insolvency, and predictive measures of insolvency.

Factors Related to Insolvency

Socioeconomic characteristics have also been examined in relation to insolvency (DeVaney, 1993; DeVaney & Hanna, 1994). Younger households are more likely to be insolvent (DeVaney & Hanna, 1994). Married households are less likely to be insolvent than separated, divorced, widowed, or single households (DeVaney & Hanna, 1994). A negative relationship between income and insolvency has also been found (DeVaney & Hanna, 1994). An employment history of less than two years with the current job was found to be related to a higher rate of insolvency in 1986, but not 1983 (DeVaney & Hanna, 1994). Increased insolvency among those with less time in their current jobs could mean their insolvency was related to a period of unemployment. Interestingly, neither household size nor education was found to be significant predictors of insolvency (DeVaney & Hanna, 1994) even though household size impacts the budget and education level can be related to household income.

Bankruptcy

At a macroeconomic level, bankruptcies result in losses for creditors that must be passed on to other borrowers (Schwartz & Anderson, 1998). It is believed that increased acceptance of credit cards has resulted in more bankruptcies in Canada and therefore increased losses for card issuers (Canadian Bankers Association, September 1999). This section examines factors related to bankruptcy. Since filers of OPD and Bankruptcy are assumed to be insolvent, these groups may be more similar than different. OPD has not been studied, thus factors related to bankruptcy may lend some insight to factors precipitating filing for OPD.

Socioeconomic characteristics of consumers who actually filed for bankruptcy have been examined (Hira, 1992). In a cross-cultural study of bankrupt individuals from Canada, the United States, Japan, and Scotland, individuals filing for bankruptcy were younger (particularly in the United States and Canada) and lower income (Hira, 1992). Most bankrupts were male, married, renters, living in households of three members, employed, working in skilled or semi-skilled occupations, and most had moved twice in the last five years (Hira, 1992). With the exception of employment status, these results were echoed in a study on Australian bankrupts (Ryan, 1992). The majority of Australian bankrupts were not employed at the time of filing, were renters and had few assets (Ryan, 1992). More Canadian bankrupts had sought financial advice before filing for bankruptcy than filers from the other countries, but also had had more repeat bankruptcies (20%) (Hira, 1992).

An empirical study of Canadian consumers seeking the protection from creditors afforded by bankruptcy or seeking credit counselling in 1997 was recently completed (Schwartz & Anderson, 1998). This study is reviewed in greater detail because it represents the most current, detailed information available on Canadians seeking bankruptcy and credit counselling. These are the groups that are likely to offer the greatest possible parallels to the OPD population. The study followed a large swell in the number of bankruptcy filings (Schwartz & Anderson, 1998). Results indicated that bankrupts are not a homogenous group (Schwartz & Anderson, 1998). Females filed 41% of bankruptcies (Schwartz & Anderson, 1998), up from 25% in 1977 (Brighton & Connidis, 1984). The 1997 sample had a higher educational level than the general population, 46% had no dependents, and 85% had been born in Canada while 12% had immigrated more than 10 years earlier (Schwartz & Anderson, 1998). As compared to the Canadian population in 1995, married households were under-represented and divorced, separated, and widowed households were overrepresented in the 1997 sample (Schwartz &

Anderson, 1998). Though the sample was economically disadvantaged as compared to the general population, they were not the poorest segment. However, median income was close to the Statistics Canada Low Income Cut-Off (LICO) (Schwartz & Anderson, 1998). More than half of the sample had expenses that equalled or exceeded monthly income (Schwartz & Anderson, 1998), suggesting they had no ability to make payments toward debts. As compared with the general population, more of the sample was employed (85%), though many had not been steadily employed over the past year, and more were employed in unskilled occupations (33%) (Schwartz & Anderson, 1998). As indicators of financial problems, a large percentage of the sample (57%) had received Employment Insurance and/or Social Assistance in the past two years, and one-third had had a credit application denied (Schwartz & Anderson, 1998). Debts owed to the government were the most common liability, with 70% of the sample owing student loans or income taxes to the government (Schwartz & Anderson, 1998). In addition, 69% had credit card debt (Schwartz & Anderson, 1998).

The study also closely examined three groups seeking bankruptcy protection: self-employed, unmarried women, and filers under 30 (Schwartz & Anderson, 1998). Of the 1997 sample, 25% were self-employed or had been in the last five years (Schwartz & Anderson, 1998). The self-employed had higher median income, higher total debt, nearly double the level of debt in each category except bank and credit card debt, owed the most to Revenue Canada (now called Canada Customs and Revenue Agency), and had twice as many assets as those not self-employed (Schwartz & Anderson, 1998). Causes of bankruptcy cited by the self-employed were failure of a small business (18%) and debt to Revenue Canada (14%), but a firm link between self-employment and bankruptcy cannot be established as the trigger of the bankruptcy was not necessarily being self-employed (Schwartz & Anderson, 1998). Unmarried women had slightly lower debts than unmarried men, but factoring in women's lower incomes and larger families, they were at a much greater financial disadvantage (Schwartz & Anderson, 1998). One-third of the 1997 sample comprised filers less than 30 years of age (Schwartz & Anderson, 1998). When compared to filers over 30, filers under 30 were more likely to have lower incomes and to have student loan debt (45%) that comprised a large portion of total debt (Schwartz & Anderson, 1998).

The study also compared the characteristics of a sample seeking personal bankruptcy (1018 participants) and those seeking credit counselling, although the sample of those seeking credit counselling was small (180 participants). More than half of the group seeking credit counselling were female (56%), most had no dependents (70%), had higher education, and more were immigrants (26%) (Schwartz & Anderson, 1998). Median income was similar between the credit counselling and bankrupt groups. However, the credit counselling group had lower monthly expenses, much lower and fewer liabilities, and debt was more often credit cards, suggesting they were in a better position to consider debt repayment options (Schwartz & Anderson, 1998). Credit overuse was cited by 52% of the sample as a factor influencing their demand for credit counselling, as opposed to only 36% of the sample seeking bankruptcy protection (Schwartz & Anderson, 1998).

Since most of the research cited on Canadian bankrupts was conducted prior to 1998 it is important to point out that amendments made to the Bankruptcy and Insolvency Act may result in significant changes to demographic profiles of future bankrupts. On June 18, 1998 a major change to the Bankruptcy and Insolvency Act came into effect with respect to student loans (S. 178(1)(g) (Houlden & Morawetz, 1999). Student loans granted under any of the federal or provincial Acts regarding student finance now may not be discharged in bankruptcy until 10 years after the individual ends schooling (Houlden & Morawetz, 1999). This change in legislation may result in fewer former students filing for bankruptcy shortly after ending their studies. If former students' ability to pay debts does not improve, this change may result in bankruptcy filings being delayed until the ten year limitation passes. Therefore the age of bankrupts with student loans may increase.

Six classes of causes of bankruptcy were identified by filers from Japan, Canada, the United States, and Scotland: "(i) collection actions taken by creditors, (ii) inability to reschedule debt payment, (iii) too much debt, (iv) reduction in income due to unemployment, sickness or reduced hours of work, (v) medical problems, and (vi) personal and marital problems" (Hira, 1992, p. 235). Similar results were found for a sample of Australian bankrupts (Ryan, 1992). Factors playing a significant role in filings for bankruptcy have also been examined (Clare, 1990). Almost all Canadian bankrupts were unable to manage money, understand credit, maintain a simple budget, or save any funds for future expenses and emergencies (Clare, 1990). Clare (1990) cited twelve major factors leading to bankruptcy in Canada: (1) inadequate family role model, (2) functional illiteracy, (3) early marriages and living relationships; (4) automobile purchases, (5) self-defeating relationships, (6) alcohol and drug abuse; (7) compulsive gambling, (8) compulsive spending, (9) marriage breakdown; (10) severe medical problems or disabilities, (11) loss of job income, and (12) student loans.

Limitations of Literature Reviewed

Literature reviewed had several basic limitations. First, much of the research focused on only one aspect of the credit/debt process, e.g., credit use or credit repayment. The research did not report consumers' progress through credit application, credit use, debt accumulation, repayment struggles, and insolvency. Such a study would prove unwieldy, however the result of focusing on one stage at a time is a lack of information with respect to what leads some consumers from one stage to the next. A study that tracks consumers through the transition between stages would be informative. Moreover, it is unclear what leads some consumers from one stage to the next, but not others. The volume of research was greatest in the area of credit use, and credit cards were explored more extensively in the research than any other form of credit. Second, some studies examined one credit arrangement or debt at a time, not the households' total debt burden or all credit agreements maintained. It is difficult to comprehend a household's financial experience by studying only one small piece of the credit/debt puzzle. Third, much of the literature examined the household head alone, perhaps omitting valuable information on the overall household economic situation or other household members. Fourth, the consumer experience with programs and services available beyond Alberta is of limited generalizability due to variations in scope, policy, and legislation, particularly for insolvency and debt collection practices. Fifth, some of the research reviewed used small samples, characteristic of exploratory research, reducing generalizability. Finally, some of the data from major national samples made limited use of indicators of financial difficulty and debt repayment performance, which forced dependence on data from smaller studies. Nevertheless, the reviewed research serves to piece together possible factors associated with credit, debt, and insolvency, experienced by Alberta OPD clients prior to initiating debt repayment through OPD.

Summary

The literature review permits inferences regarding factors that may be related to debt repayment performance on OPD. In general, it is expected that OPD clients will most resemble consumers who have experienced debt repayment problems such as missed payments, delinquency, default, insolvency, and insolvency programs such as bankruptcy. The research showed that these consumers experienced the greatest financial difficulty and OPD participants sharing similar socioeconomic characteristics would likely demonstrate the poorest debt repayment performance. OPD participants with the strongest debt repayment performance would appear socioeconomically more similar to subsets of credit users and debtors, perhaps suggesting their financial difficulties were more a result of circumstance than poor financial management. The following components appear particularly important in defining the OPD population and understanding debt repayment performance, and are worthy of further investigation.

Cash Flow Factors

Income.

Low income has been found to be associated with higher proportional housing expenditure, higher frequency of missed payments (also higher in middle income), higher rate of insolvency, bankruptcy, and alternative financial sector borrowing. Higher income has been associated with higher debt levels, higher monthly payments, more credit knowledge, and vehicle leasing. The expectations extending from the literature would be that low income OPD participants would have greater debt repayment problems, would comprise a large portion of the OPD population due to higher insolvency risk, and their OPD programs would more likely include repayment of debts to alternative financial sector lenders. Higher income OPD participants would have higher monthly OPD payments, more total debt, a greater number of debts, and greater likelihood of a vehicle lease, but would comprise a smaller segment of the OPD population. With higher income, this smaller segment should have a stronger debt repayment performance on OPD.

Expenses.

Major household expenses have been shown to affect the budget, so in turn may affect debt repayment performance. Spending more than 30% of net income on housing results in a housing burden. Housing burdens are more commonly found among older, renter, and lower income households and result in less disposable income to spend on all other basic expenses. Risk of overspending on housing was five times higher for renters and seven times higher for homeowners that were also using vehicle-related credit, and higher transportation costs were associated with higher housing costs. OPD participants with a housing burden may be more prone to repayment problems, which may be further exacerbated by vehicle-related credit payments.

Net Worth Factors

Higher debt levels and a greater number of debts have been shown to be more difficult to manage and to be a meaningful predictor of financial problems. It should follow then that OPD participants with these characteristics would more likely experience difficulty with debt repayment on OPD. Higher debt burdens were found for households with a mortgage, longer life expectancies, more assets, positive views of credit, and smaller, married, and younger households. A greater number of debts was associated with more knowledge about credit use and more finance charges. Households with more types of debt at one time were more likely to confront delinquency, default, and foreclosure. OPD consolidates the participant's unsecured debts, leaving secured debts such as car loans and leases off the program to be paid separately. Since more debts were shown to increase repayment problems, OPD participants who have secured debts in addition to their OPD payment may experience greater rates of repayment problems as compared with clients who have no secured debts. Further, since higher debt was a predictor of financial problems and a high ratio of monthly payments to monthly income was related to repayment problems, it may be that the higher the total debt obligation, and/or the higher the monthly debt payment as compared with income while on OPD, the poorer the repayment performance.

Personal, Behavioural, and Psychological Factors

Personal, behavioural, and psychological characteristics of debtors identified by the literature may extend to OPD participants and could be factors in debt repayment performance.

Age has been shown to be a prominent factor in willingness to use credit, credit card use, retail and bank credit card possession and use, convenience and revolving credit card use, home equity credit, vehicle credit, consumer debt, education, and housing expenditure, delinquency and default, insolvency, and bankruptcy. It follows that age would be expected to feature prominently in analysis of the OPD population and in debt repayment performance on OPD. Younger consumers possess and use more credit, and carry more debt. Younger consumers are assessed more finance charges, resulting from a higher propensity to carry a balance from month to month, are more inclined to use credit to extend spending when short of money, even though they were reportedly more knowledgeable about credit use. Younger consumers had higher debt burdens and so were more likely to experience debt repayment problems, such as missed payments, delinquency, default, and foreclosure. They also were more likely to become insolvent and thus require a program like OPD, and less likely to have an emergency fund to ameliorate unexpected financial crises. The OPD population is expected to be younger than the general population and the younger participants are likely to experience the poorest debt repayment performance on the program.

Debtors have been shown to have poor money management skills, to miss appointments, and to have short-term time horizons. Low resource households were correlated with crisis enmeshment, constant crisis, short-term time horizons, stress, limited choices, limited access to positive role models, low self-esteem, pervasive hopelessness, and external locus of control, and reportedly had the greatest barriers to debt repayment. These groups may have significant overlap. Most of the above factors comprise behavioural and psychological elements and some have been related to perceptions of coping financially. These intangible factors likely play a significant but difficult to discern role in debt repayment performance. However, since a client cannot be denied the opportunity to participate in OPD on the basis of behavioural and psychological characteristics, the influence of these factors is acknowledged but will not be explored.

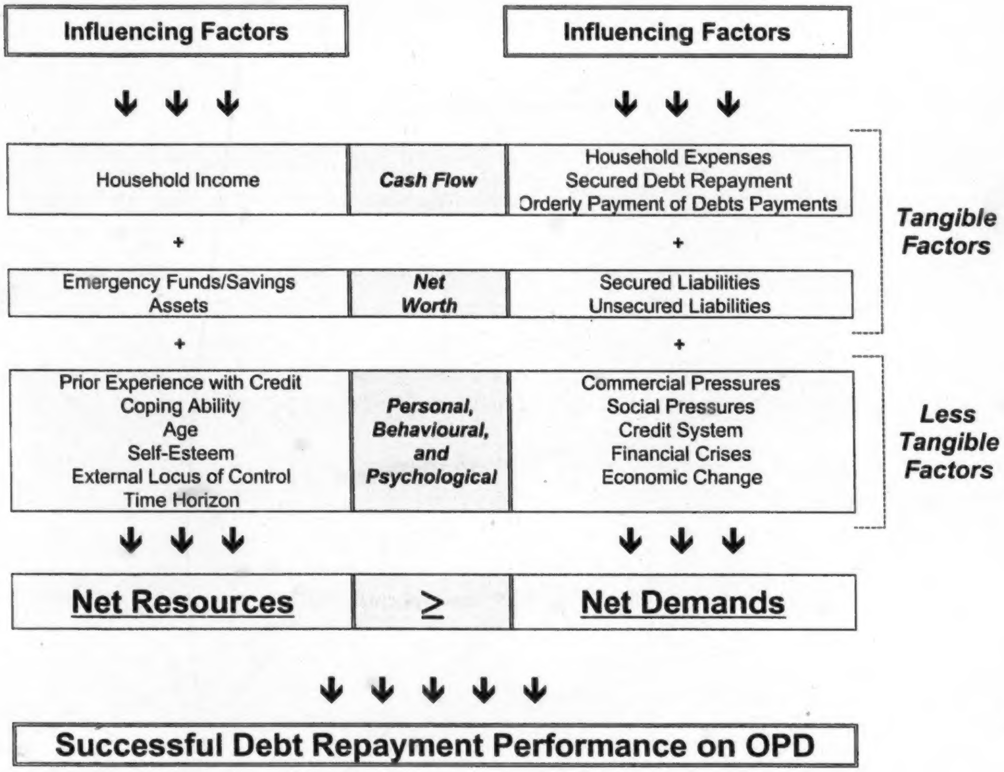
Credit use has increased over the past few decades. As a result more consumers are using credit and therefore may be at risk of difficulties managing their borrowing. The increase in credit use unfortunately may increase the demand for legislated options for dealing with financial problems related to debt. Since consumers have been shown to evaluate credit products they may apply the same mental heuristics to alternatives for management of insolvency. Consumers' difficulty in estimating the costs associated with borrowing, or maintaining the household budget has the potential to negatively affect debt repayment performance. Overestimation of repayment capacity alone or in combination with underestimation of budgetary expenditure may increase the likelihood of debt repayment problems on OPD.

Debt accumulation does not occur for all credit users. Only some consumers with debt will experience debt repayment problems and become delinquent or default on credit obligations. Only some consumers with repayment problems will ultimately become insolvent. As compared with the credit user group there are very few insolvent consumers. A small portion of insolvent consumers will participate in OPD, and a segment of those will become delinquent and default on their programs. Successful debt repayment on OPD may rest upon assisting clients to moderate the potential effects of unanticipated expenses and vast lifestyle desires with financial management and budgeting skill development, adoption of a long-range approach, and confidence in ability to cope with economic change.

Conceptual Framework

Envisioned from the literature reviewed is a multidimensional conceptual framework regarding consumers' debt repayment performance on Orderly Payment of Debts (OPD). The conceptual framework of debt repayment performance is grounded in an analysis of whether the net resources in the household system are adequate to generate the result of successful debt repayment on OPD. Household resources and demands must be considered more broadly than from a financial perspective to grasp the complex issues involved with debt repayment performance. In order for debt repayment to be successful the resources must exceed the demands on the household system such that the OPD participant has adequate ability to satisfy payment requirements over the full duration of the program. Using a bank account as an analogy of the household system illustrates the framework of debt repayment performance. The household resources are the sum of deposits to the account and the demands, including debt repayment, are the withdrawals. There are limits to the household's deposits, the total of which must equal or exceed the sum of the withdrawals to carry out debt repayment. Anything that impacts the level of deposits can affect the household's means to meet demands. If demands other than debt repayment drain the account then debt repayment is threatened. The reverse is also possible. If debt repayment drains the account, then the household will be at risk of being short of resources with which to meet other basic demands. No matter which side is affected, over the long term the impact is likely to be observed through debt repayment performance. Debt repayment performance is a matter of balance. As long as net resources meet or exceed net demands debt repayment is more likely to be successful. To define the construct promoting successful debt repayment on OPD, factors influencing household resources and demands are examined.

Figure 1: Construct of Debt Repayment Performance


Influencing Factors
Influencing Factors
Household Income
Cash Flow
Household Expenses
Secured Debt Repayment
Orderly Payment of Debts Payments
+
+
Tangible Factors
Emergency Funds/Savings
Assets
Net Worth
Secured Liabilities
Unsecured Liabilities
+
+
Prior Experience with Credit
Coping Ability
Age
Self-Esteem
External Locus of Control
Time Horizon
Personal, Behavioural, and Psychological
Commercial Pressures
Social Pressures
Credit System
Financial Crises
Economic Change
Less Tangible Factors
Net Resources
≥
Net Demands
Successful Debt Repayment Performance on OPD

In preface to the discussion of factors influencing resources and demands two assumptions will be applied to the relationship between household resources and demands. First, it is assumed that the factors affecting resources and demands are not fundamentally positive; that is, always add to or increase the net value of the resources or demands. The factors revealed by the literature reviewed may either expand or contract net resources and net demands. But because they affect resources and demands, these factors also will affect resulting ability for debt payment and subsequently debt repayment performance.

The second assumption is that not all factors related to resources and demands can be easily observed or objectively measured. Resources and demands comprise both tangible and less tangible components. Tangible resources and demands are factors of two common concepts of household financial management: cash flow and net worth. Each concept has a resource and demand element. Cash flow is the continual movement of money in and out of the household system, and comprises household income (resource) and household expenses (demand). Net worth is a snapshot of the financial status of the household and is determined by deducting the value of the household's liabilities (demand) from household's assets (resource). The fiscal balance between resources and demands is marked and quantifiable. The challenge is in exploring that balance from a broader perspective and looking at the roles of less tangible factors of influence. Less tangible resources centre on the individual, or internal environment, and include personal, behavioural and psychological factors. Less tangible demands focus on the environment external to the individual and include commercial and societal pressures, the credit system, financial crises, and the economy. For a complete picture, all factors related to resources and demands merit interest.

Resources

The household's net resources are the sum of tangible factors such as income, assets, and savings and less tangible behavioural and psychological factors such as prior experience with credit, capacity to cope, self-esteem, locus of control, and time horizon.

A household's net income is the primary tangible factor contributing to resources utilized by consumers. Within the definition of income, aspects of source and stability in addition to amount must be considered. Household income can comprise a variety of sources including employment income, self-employment income, government income support programs such as Assured Income for Severely Handicapped (AISH), Supports for Independence (SFI), government income security programs such as Employment Insurance (EI), Canada Pension Plan Benefits (CPP), Old Age Security Pension (OAS), government child and family benefits such Canada Child Tax Benefit (CCTB) and Alberta Family Employment Tax Credit (AFETC), child and spousal maintenance, and even rental income. With other factors held constant, higher income should be supportive of debt repayment performance.

For many consumers stability of income is also an important factor and can be related to the source of the income and employment stability. Some types of income, and therefore resulting net resources, may be less stable than other sources and thus tough for the consumer to count on. The more reliable, stable, and consistent the income, the easier it should be for consumers to preserve the balance between resources and demands and therefore manage the household finances. Regular household income may be seen as a more dependable resource factor than irregular household income. Seasonal employees, commission-based employees, natural resource industry-based employees and the self-employed can often be disadvantaged by irregular income. Irregular income presents an additional challenge for participants because stronger financial skills are necessary to transform inconsistent income into a regular stream for managing household obligations and OPD payments.

Income plays a more extensive role than just as an element of financial resources. Income is a major determinant of the credit products consumers can access. Income is also related to the resource component of prior experience with credit, because higher income consumers are likely to have experienced more access to better quality credit products than lower income consumers. The better the terms of the credit agreement, the higher the consumer's income is expected to be to qualify. As will be further explained, it is the consumer with the least capacity to pay, who has lower income, who may need to rely on poorer quality credit sources. It can be expected, then, that lower income OPD participants will have more poor quality credit sources included in the program, and thereby more difficulty with debt repayment.

As the resource aspect of net worth, household assets contribute to overall resources according to the literature, and include household savings set aside as an emergency fund. As households struggle to meet financial obligations any savings may be drained. The role of an adequate emergency fund generally, and while on OPD, is in helping households moderate the effect of fluctuations in other resources or demand factors. The absence of an emergency fund leaves households less able to meet financial pressures imposed by those fluctuations, including debt repayment.

Another element contributing to household resources comprises several interrelated components of prior experience with credit. Broadly defined, prior experience with credit is the aggregation of a consumer's financial socialization, knowledge, understanding, attitude, and experience with credit products and their management. Prior experience with credit is certainly greater than the consumer's direct exposure as it may include indirect credit experiences, both learned and observed, through personal relationships or the media. Both direct and indirect experiences with credit may establish patterns of financial behaviour, define attitudes toward credit, and create values surrounding credit and its use. The contribution of prior experience with credit to net resources may span the continuum from entirely positive experience to no experience to entirely negative experience. Negative prior experience with credit can comprise both direct experiences and indirect experiences with late payments, missed payments, delinquencies or defaults on credit agreements, collection activity, insolvency, and poor quality credit products. Positive prior experience with credit then comprises direct or indirect experiences of regular, timely, and adequate payments, and good quality credit products. It is theorized that both lack of prior experience with credit and negative prior experience with credit are detrimental to net resources, whereas positive prior experience with credit is contributory to net resources.

Related to prior experience with credit is age. The literature showed age to be an important factor at every level in the progression from credit use to bankruptcy. It should follow then that age is a factor that influences resource levels and so would feature prominently in debt repayment performance on OPD, particularly due to the relationship between age and prior experience with credit. Since younger consumers appear more vulnerable to difficulty it would follow that younger consumers would experience more trouble with debt repayment on OPD. Underscoring the interrelatedness of resource components, this difficulty is likely the result of multiple factors including lower income, less knowledge and experience managing household finances including credit, and shorter credit histories.

Credit, or the ability to borrow itself, is a means to artificially "extend" resources to permit consumption otherwise not currently economically feasible. In essence, credit is an illusory and temporary resource. Credit, in the short term, can provide passage to a lifestyle beyond what the household's resources can readily support. Over the long term, credit access can dissolve and reality appears. In order to recover financially, the household will be forced not only to live within its means, but also to live below previous standards to leave resources available for debt repayment. If extending resources with credit is a routine behaviour for the consumer, credit-free financial management will be a major change.

Credit knowledge, credit history and access, and ability to manage credit can be reflected through the credit products chosen and used by the consumer. Conditions of available credit products range tremendously in terms of interest rate, collateral demands, etc.. The preferred credit product would afford the consumer the credit desired at the best possible terms. However, as will be discussed, it cannot be concluded that all consumers have knowledge of what constitutes good credit terms, nor that they know where such good products can be obtained. For OPD participants the credit products included on their programs will provide an initial indication of ability to manage credit. A tangible measure of prior credit experience is the credit history of an individual as recorded on a consumer credit report. A consumer credit history, or lack there of, is a statement of a consumer's prior experience using credit. Prior direct experience with credit, in conjunction with other factors such as income and expenses, determines the sources and types of credit for which the consumer will qualify. In the absence of direct experience with credit, the consumer is less likely to have access to credit with favourable terms (low interest rates, unsecured). With direct credit experience spotted with missed or late payments, delinquency, or default, the consumer is more likely only to have access to credit from high-risk tertiary lenders, or the alternative financial sector that offer comparatively unfavourable terms (very high interest rates, secured). In contrast, positive credit experience with regular, timely, and adequate payments, provides the consumer with access to credit on desirable terms. From an operant conditioning perspective, the reward of good credit management practices is continued or improved access to optimum credit products.

In addition to consumers with poor credit histories and consumers without credit histories, consumers who lack awareness of lending in general, and more specifically credit products, may be relegated to lower quality credit products by default. A lack of knowledge is itself a barrier to accessing credit products that have favourable terms.

Coping ability can be viewed as a less tangible household resource, the lack of which could lead to poorer debt repayment performance on OPD. Capacity to cope with perceived financial demands varies from individual to individual and household to household. As the financial system is not static it can be expected that the household will need to contend with changes in resources and demands throughout the OPD commitment. Prior to going on OPD it may be that households repeated financial behaviour or decision making that was not conducive to effective financial management. As payments on debts became more difficult to manage, credit card limits were reached, or income ran short, some households may have coped by habitually accessing additional credit, in effect attempting to solve a debt problem with debt. Though perhaps a demonstration of "you do what you know", without concurrently changing spending practices, this behaviour is analogous to making the same choices over and over and yet expecting different results. If this behaviour is repeated on OPD, without access to credit, payments may be missed on other monthly expenses, savings may not be set aside for irregular/annual expenses, or the OPD payment may be missed. OPD participants at minimum will need to adapt to living without credit. CCSA provides learning opportunities and practical guidance to clients in areas of money management. If a lack of financial skills is at issue, households that learn and/or adopt new ways of coping such as consistent budgeting, tracking of expenses, and good savings habits for irregular/annual expenses must be less likely to become delinquent or default on OPD payments. It is sound to suggest that some defaults on the OPD program are a result of intangible factors such as an inability to cope with financial changes or make the adjustment to the OPD program. However, identifying particular segments of OPD clients who struggle may direct counsellor resources to the analysis of individual needs and provision of additional behavioural and/or psychological support.

The literature reviewed has shown that self-esteem, locus of control, and the concept of time horizon are other important factors related to debt. As factors of influence they may expand or contract net resources and therefore affect resulting debt repayment performance depending on the household and the individuals within the household. Low self-esteem, external locus of control, and a short-term time horizon would be expected to have a negative impact on net resources, whereas high self-esteem, internal locus of control, and a long-term time horizon would have a positive effect on net resources based on the literature.

It is indisputable that household resources are as complex as the individuals and households themselves. The components of household resources, both tangible and less tangible, are interconnected and interdependent, and certainly an integral first half of the construct of debt repayment performance on OPD.

Demands

Demands on the household, including debt burden, must be equal to or less than its resources for debt repayment to be successful. It is reasonable to assume that the greater the demands on the household's resources, the less surplus will remain to be applied to the demand of debt repayment on OPD. While resources clearly are limited, demands on the household's resources can seem unlimited, particularly to the consumer. Regardless, the bottom line for the consumer and OPD debt repayment is whether household resources can accommodate all demands, including OPD payments.

In order to accumulate debt, demands must have exceeded available resources. Access to credit can create a false sense of the resources available within the household and, from that, an unrealistic reliance on the lifestyle credit access entitles. This is not to suggest such consumers are living lavishly, just living beyond current resources. The impact reverberating from the adjustment from an unbalanced household budget to a balanced household budget that allows for debt repayment could be a challenge. The behavioural and psychological adjustment itself is a demand on household resources.

At one level, demands can be viewed as household expenses, the second part of the financial concept of cash flow. Some of the factors that determine demands, such as the number of dependents within the household, can be thought of as fixed. The greater the number of dependents, the higher the financial demand. Other factors contributing to demands may be determined by consumer choice, such as lifestyle preferences and related costs, i.e., vehicle ownership versus public transportation.

The household budget is the greatest tangible demand on household resources. When a debt repayment program is set up, the participants establish a household budget with a counsellor and also determine the OPD payment. The budget is not a constant, and needs to be monitored. Expenses that exceed the allotted amounts in the budget deplete resources necessary for debt repayment on OPD. It is understood and expected that expenses will increase through inflationary trends. It is hoped that the participant's resources will keep pace with those inflationary increases. Expenses increasing in cost over time will account for some of the variance between the budget set up at the start of the program and the budget during the program. However, an increase in expenses may also be the result of the participant not putting in the effort to follow the household budget, save for irregular/annual expenses, and track expenses, and/or a underestimation of the true cost of expenses.

A consistent budget should be an easier demand for the household to control. Fluctuations in monthly expenses and irregular/annual expenses are more difficult to manage unless a plan is in place to regulate and balance the budget such as regular savings for irregular/annual expenses and an emergency fund. Participants are responsible for setting aside some of each month's income in preparation for irregular/annual expenses. Failing that, participants may be ill-prepared to meet irregular/annual expense demands as they occur resulting in missed OPD payments.

In addition, financial recommendations exist for the portion of the household's income certain expenses should absorb. Disproportionately large expenditures in expense categories undoubtedly place strain on the availability of funds for other uses including debt repayment. Households with higher expense/income ratios, particularly in categories of housing, transportation, and personal allowances, would be expected to have poorer debt repayment performance as there is simply less money left for other obligations including OPD and possibly greater vulnerability to increasing expense demands.

Secured debt repayment is a demand for many households on OPD as well. Secured debts such as vehicle loans or leases and cosigned debts are generally left outside the OPD program and continued as per the original contract. As a result, secured debt payments are considered part of the household budget and therefore viewed as a demand. Participants must continue to make regular secured debt payments in addition to the OPD agreement. Since a greater number of debts is related to more difficulty with debt repayment, a higher number of debt repayment obligations can be viewed as more complex to control. The length of a debt repayment commitment, whether secured debt payments and/or OPD payments, may also be a factor related to debt repayment performance due to consumers' difficulty estimating length, monthly and total cost of repayment obligations. Participants with more secured debts in addition to the OPD and/or longer total debt repayment commitments within or outside the OPD program may have poorer debt repayment performance.

The concept of demands can be taken beyond financial factors. Demands can also comprise less tangible components external to the household and may include commercial pressures, social pressures, the credit system, financial crises, and changes in the economy. What is unique about these components is that their effect on net demands is highly dependent on the household's unique situation and perception. Commercial pressures, social pressures, the credit system, and financial crises may influence consumption and if this spending is in conflict with the planned budget then it may reduce ability to make debt payments. Though more obviously a demand prior to OPD, the credit system can still be viewed as a demand when participants are on the OPD program and do not have access to credit. The benefits afforded by credit are appealing and numerous, so the lack of access to credit may introduce an additional pressure on the household. First, whether the household is apprehensive or welcoming of operating on a cash basis, it now must meet net demands, including OPD program payments, with net resources alone without credit available for "emergencies" or to meet shortfalls. Second, OPD participants may be frustrated if they perceive they are the only ones in their family or social networks without credit access and if they continue to be faced with credit promotions. Finally, living without credit may introduce the need to learn and implement an entirely new strategy of managing money, which may be a challenging adjustment. The consumer's perception of the challenge presented by the shift in practices may be a factor that affects demands and therefore debt repayment performance. Financial crises can add to household demands and can include illness, injury, lay-off, unemployment, and addiction, and in many ways these demands may be difficult for the household to anticipate and adequately prepare. Changes in the economy also can have far-reaching affects on households' ability for debt repayment and are generally beyond the participants' control.

With the OPD program, debt repayment consumes the surplus of resources left after other household demands are met. Without debt, this surplus could be allocated to other consumer goals such as savings. Participants would be more likely to struggle on the program when the OPD payment depletes a larger proportion of the surplus resources. Difficulty on the OPD program due to making a large OPD payment can be predicted as research has shown debt repayment problems to be related to higher ratios of debt to income. Also related would be the length of debt repayment required. Longer OPD programs are necessitated by some combination of high debt level and low ability to make debt payments. Participants would be more likely to have poorer debt repayment performance and greater likelihood of default on OPD when on longer programs, as more time leads to a greater probability of experiencing negative financial changes.

OPD participants face the challenge of trying to hold levels of resources and demands reasonably static to permit consistent ability for debt repayment. Debt repayment performance on OPD is determined by how well participants respond to the resource-demand construct. This conceptual framework clarifies the foremost components attended to by participants of the OPD program. The resource and demand construct functionally theorizes the endeavour of debt repayment performance on OPD. The aggregate demands on the household must be sufficiently lower than the net resources, and remain so over time for debt repayment to be successful.

Methods

This research aims to identify socioeconomic factors associated with debt repayment performance and to determine whether socioeconomic factors can be employed to predict debt repayment performance on Orderly Payment of Debts (OPD). This chapter outlines the manner in which this question was addressed, identifies the variables of interest, and hypothesizes relationships between socioeconomic variables and debt repayment performance based on the review of literature and conceptual framework.

As no previous research has been conducted on the OPD program or its participants, to address this question, the investigation had three main objectives. The first was to provide a description of the socioeconomic characteristics of participants of the OPD program. The second was to compare and contrast OPD participants who completed the OPD program with OPD participants who did not complete the OPD program on the basis of socioeconomic characteristics. The final objective was to complete a multivariate correlational analysis to explore relationships between socioeconomic variables and variables related to debt repayment performance in order to determine whether socioeconomic variables can be used to predict debt repayment performance on OPD.

Sample

The study sample included participants in the OPD program. To be included the participants must have met two conditions. First, the participant's OPD program must have been initiated after May of 1997. This was to ensure that only participants set up on the program by Credit Counselling Services of Alberta (CCSA) were included. These OPD programs have been arranged for participants by CCSA counsellors employing detailed financial assessments based on program policy standards and duration guidelines, and thus consistency can be assured. Second the participant's OPD programs must have been completed at the time of data collection. The population from which the sample was drawn included 1007 closed OPD program files initiated after May 1997 and completed by December 2001.

A random sampling procedure was used to draw a representative sample of participants from the population of 1007 closed OPD files. A data file was created using SPSS that listed the file number for each closed file that met the time period conditions. SPSS was used to derive a random sample of 325 OPD program files from the population of 1007 closed files. A sample of 325 files was adequate to ensure the paid in full and defaulted sub-samples were large enough in size to allow meaningful conclusions to be obtained from the analyses. Once identified, the sample files were obtained and the data collected. During data collection, two OPD files were noted to contain irregularities that required their deletion from the sample, as their inclusion would have negatively impacted the analyses.

Data

Data were collected entirely from public documents related to the OPD program. Each document for the OPD program legislated under Section X of the Bankruptcy and Insolvency Act was completed as per the regulations for the OPD program (Peltomaa, 1999). To understand the source of the data for this study, the process of administering an OPD program and the documents required are briefly described. The documents for each program are filed in the Court of Queen's Bench in the Province of Alberta, in the judicial districts of Edmonton or Calgary. The documents provide socioeconomic data with respect to program participants in a consistent and standardized format and ensure that the same information is available for all participants. The documents also provide significant detail not generally available using other research designs such as surveys and interviews. Through the assessment process extensive documentation is collected from the participants in many areas, including income (i.e., pay stubs, income tax assessments), expenses (i.e., documentation of rent or mortgage, utility statements), and debts (i.e., debt statements, contracts, bank statements). Consumers would not be able to report this level of detail from memory in the context of surveys or interviews. The detail afforded by the documents is incorporated in the set-up of the program and therefore made precise financial data available for this research.

Three public record documents were used as the sources of the data: the Affidavit, the Consolidation Order, and the Final Report. Each of these documents is available to the public from Provincial court records. The Affidavit is the first document filed and serves as the foundation of the program by outlining in detail the financial situation of participants. The Affidavit describes personal, household, employment, asset, debt, income, and expense information, as well as the repayment terms proposed for the OPD program, including planned payment amount and payment schedule. Also filed with the Affidavit is a related document called the Notice to Creditors, which contains much of the same information and is the document served to the participants' creditors to advise them of the OPD program. Thirty days after the Affidavit and Notice to Creditors are filed, the Consolidation Order is filed. The participants' creditors have had the opportunity to revise balances owed and the filing of the Consolidation Order finalizes the terms of the OPD program. The last document filed is the Final Report and it summarizes the amount of debt paid to creditors and the closed status of the file, such as paid in full or defaulted.

The following sections summarize the variables of interest, the data that were collected, and the public record document source of the data.

Dependent Variables

The dependent variables represent debt repayment performance and success on the OPD program. Each variable has its own role in measuring success on the OPD program. These measures allow all participants to be rated according to how well they met the requirements of the OPD program. The requirements of the program are to pay off the debt, and to do so in the time frame specified. The dependent variables are Debt Repayment Status and Debt Repayment Performance measures of Program Length Score, Debt Repayment Score, and Program Duration Score.

Debt Repayment Status is the simplest measure of success on the OPD program. Debt Repayment Status is a dichotomous variable describing the final status of the participant's OPD program, and reflecting the first requirement of the OPD program: to pay the debts off in full. OPD participants included in the study either completed the program by paying off their debts in full, or defaulted from the program and thus did not complete the program requirements. The participant completing the OPD program by paying off their debts is by this measure successful. Ultimately, the participant has cleared the debt and his/her creditors have recovered the funds loaned. If the participant does not complete the OPD program then s/he is by this measure unsuccessful as s/he still has debt and unsatisfied creditors.

Debt Repayment Status alone does not provide a comprehensive picture of debt repayment performance on OPD. In satisfying only the question of whether the debt was repaid, it fails to describe how well the participant did on the program and it does not differentiate among clients who pay in full or among clients who default. Clients who pay in full may not perform the task of debt repayment equally well. Of clients who default, some endure longer or pay more on the program before defaulting than others. This shortcoming raises the need for a second group of measures to rate and compare actual performance on OPD. All participants by the Debt Repayment Status measure fall into one of two groups, OPD program completed or OPD program not completed, so different performance scores will be employed for each group.

The performance measure for participants who complete the OPD program is Program Length Score. Program Length Score represents how closely the debtor met the time requirement planned in the OPD program. Each OPD program has a planned duration or term, similar to a consumer loan. Participants are expected to complete the program in the time frame outlined by the agreement. Participants may complete the program ahead of schedule, on schedule, or behind schedule. As indicated by the Program Length Score, a client who completed the OPD program ahead of schedule is more successful than a client who did not make required payments and completed the program behind schedule. This performance measure shares similarity with credit ratings found on a consumer credit report. Deficiency in making OPD payments is detrimental to Program Length Score in the same way that deficiency in making payments on consumer debts is detrimental to credit ratings. The better the Program Length Score the more effectively the participant has proven that s/he can balance resources and demands to sustain a long-term debt repayment commitment. As compared with Debt Repayment Score, Program Length Score may be a better reflection of a participant's ability to manage debts and may be of particular importance to future lenders.

The second group comprises participants who defaulted and did not complete the OPD program and requires distinct debt performance measures that consider both the portion of debt paid and portion of the length of the program completed. The Debt Repayment Score represents the portion of the debt paid before the termination of the program. Among participants who do not complete the program there are still varying degrees of success in debt repayment on OPD. A client who repays 50% of the debt receives a higher score than a client who repays 25% and is more successful by this measure. The Program Duration Score looks at the amount of time the participant was on the program prior to default in relation to the planned length of the program. By this variable a client is more successful the longer s/he manages to stay on the program. How long a client is able to maintain his/her debt repayment obligation is a demonstration of how well s/he controls resources and demands.

The following table summarizes the four dependent variables (Debt Repayment Status, Program Length Score, Debt Repayment Score, and Program Duration Score), the public record sources for the dependent variables, and the operational measures for the dependent variables.

Table 1: Dependent Variables

Variable	Public Record Data Source	Description and Determination of Variable Values
Total Sample		
Debt Repayment Status (DRS)	Final Report	0 = Defaulted 1 = Paid in Full
Paid In Full		
Program Length Score (PLSCORE)	Calculated from Consolidation Order and Final Report	Program Length Score measured whether the program was completed earlier than planned, on time, or later than planned. The value was calculated by subtracting the number of months over which the program was planned (Planned Program Length) from the number of months required to complete the program (Actual Program Length), divided by the Planned Program Length and expressed as a percentage. Negative Score = Paid earlier than planned 0 Score = Paid as planned Positive Score = Paid later than planned
Defaulted		
Debt Repayment Score (DRSCORE)	Consolidation Order and Final Report	Debt Repayment Score was the portion of the debt paid prior to the closure of the program expressed as a percentage. The value was calculated by dividing the amount of debt paid on the OPD program by the total amount of debt on the program. Score Range: 0% Repaid to <100% Repaid
Program Duration Score (PDSCORE)	Consolidation Order and Final Report	Program Duration Score was the portion of the Planned Program Length that elapsed prior to the closure of the OPD program expressed as a percentage. The value was calculated by dividing the Actual Program Length in months by the Planned Program Length in months. Score Range: > 0% of Planned Program Length (no upper limit)

Independent Variables

The independent variables of focus in this study were socioeconomic characteristics associated with credit behaviour that were identified in the review of literature, and that are available, or can be calculated, from the public records related to each participant's program.

For simplicity, the independent variables are grouped under four main categories: Household, Net Worth (including assets and debts), Cash Flow (including income and expenses), and Prior Experience with Credit. Within each group of independent variables there can be resource and demand elements. This section outlines the independent variables and hypothesizes the relationships between the variables and the measures of debt repayment performance.

Household Variables

Household composition is mentioned frequently throughout the literature reviewed. The variables in this category are described in the Affidavit document and include age, marital status, order composition, number of full household dependents and number of partial household dependents.

Age has been shown throughout the literature reviewed to be an important factor at each level of the progression from credit to insolvency. As a result, age should be positively related to Debt Repayment Status, Program Length Score, Debt Repayment Score, and Program Duration Score. Marital status is a socioeconomic characteristic about which there was conflicting evidence in the literature reviewed. More evidence in the literature leaned toward the marital relationship affording better financial stability for the household than being single (never married, separated, divorced, and widowed) and thus we would expect married households to have a greater likelihood of completing the OPD program and performing well on the program than singles. Order composition seeks to identify the relationship between measures of debt repayment performance of single participants (one debtor on the program) and couple participants (two debtors on the program). Order composition is not the same as marital status. A married male debtor could be on a program and his partner not on the program. Gender was shown to be related to insolvency and thus males on programs alone would be expected to be less likely to complete the program and more likely to receive poor performance scores (Program Length Score, Debt Repayment Score, and Program Duration Score).

The final two variables measure the composition of the household. Number of full household dependents includes all household members the participant identified as being fully dependent on the resources of the household. Full dependents are children living in the household and spouses/partners not currently in the workforce. Number of partial household dependents includes those the participant identified as partially dependent on household resources. In most cases partial dependents are non-custodial children or ex-partners to whom child or spousal maintenance is paid. Occasionally, adult children who are not yet living self-sufficiently or older parents with low fixed incomes may be listed as either partial or full dependents. Each of these variables addresses the demand side of the balance between resources and demands as outlined in the conceptual framework that, along with the reviewed literature, supports the idea that household size or number of dependents should be negatively associated with Debt Repayment Status, Program Length Score, Debt Repayment Score, and Program Duration Score.

Table 2: Independent Variables - Household

Variable	Public Record Data Source	Description and Determination of Variable Values
Resource Variables		
Age	Affidavit	The age of the reference person (first person listed on the document).
Marital Status	Affidavit	Marital Status of reference person. 0 = Single or Equivalent 1 = Married or Equivalent
Order Composition	Affidavit	The composition of the order based on the gender and number of debtors. ***Order Composition*** ***No*** ***Yes*** Male on individual program 0 1 Female on individual program 0 1 Couple on joint program 0 1
Demand Variables		
Number of Full Dependents	Affidavit	The number of full household dependents.
Number of Partial Dependents	Affidavit	The number of partial household dependents.

Net Worth Variables

The Net Worth of the household depicts a snapshot of the household's financial status at that moment in time. For OPD participants, the net worth variables represent the household at the start of the program.

Asset Variables.

Three asset variables will be examined in this study: assets, emergency fund, and housing status. These variables fall on the resources side of the balance between resources and demands as outlined in the conceptual framework. Assets owned by the household, and in particular financial assets as an emergency fund, appear to be protection from financial difficulty and therefore should be positively related to Debt Repayment Status, Program Length Score, Debt Repayment Score, and Program Duration Score. Homeowners have been found to be under-represented among insolvents and to have a housing burden less frequently. Since they should be less vulnerable to financial difficulty, home ownership should be positively related to Debt Repayment Status, Program Length Score, Debt Repayment Score, and Program Duration Score.

Debt Variables.

The independent variables of interest regarding debt centre on the factors of total dollar amount of secured, unsecured debts, and total debts. These variables are only about the dollar value of debts, as the debt-related factors of payment size, source of debt, and number of debts are unrelated to calculations of net worth.

Net Worth.

Net worth summarizes the financial state of the OPD participant by subtracting total debts from total assets. Net worth was identified regularly in the literature as related to each stage in the progression from credit to insolvency, and based on earlier findings, net worth would be expected to be positively associated with all measures of success on OPD.

Table 3: Independent Variables: Net Worth

Variable	Public Record Data Source	Description and Determination of Variable Values
Asset (Resource Variables)		
Assets	Affidavit	Sum of value of assets (property and financial assets) listed in the asset section of the document.
Emergency Fund	Affidavit	Total value of all financial assets listed in the document (i.e., savings bonds, RRSPs).
Housing Status	Affidavit	0 = Renter 1 = Homeowner
Debt (Demand Variables)		
Total Debts	Consolidation Order	The sum of debts included on the OPD program and debts not included on the OPD program (excludes mortgage debt).
Total OPD Debts	Consolidation Order	Total OPD Debts will be the total of the debts included on the OPD program.
Total Secured Debts	Consolidation Order	Total value of debts not included on the OPD program.
Net Worth		
Net Worth	Calculated from Affidavit and Consolidation Order	Total value of debts (including the mortgage) less total value of assets (including the home).

Cash Flow

The Cash Flow variables represent the household's inflow of financial resources and outflow of financial expenditures and they have been described as primary components in the balance between resources and demands.

Income Variables.

The income variables examine not only amount of income, but characteristics of income such as source, number of types of income, and recent stability of income. Income has been shown in the literature to be associated with delinquency and default, and insolvency, and consequently income is predicted to be positively associated with Debt Repayment Status, Program Length Score, Debt Repayment Score, and Program Duration Score. The number of income earners and the number of sources of income are two variables looking at particular characteristics of the household's income. The main distinction between the two variables is that number of sources of income includes the income that comes from sources other than employment, while number of income earners distinguishes between single and dual income households. These variables have not been reviewed in the literature; however, from a resource-demand perspective, they merit analysis and mixed results are anticipated. Households with more than one income earner probably are more resilient to income challenges and so should show stronger debt repayment performance. However, more sources of income, and in particular, those not related to employment, must be more difficult to control and then could be detrimental to debt repayment performance. Income source has been shown to be related to insolvency, so it is also anticipated to be reflected in debt repayment performance. Income from Government Income Support Programs and Government Income Security Programs, because they are minimal incomes related to unemployment, and self-employment, because it can be irregular, are predicted to be associated with not completing the program and with having poorer debt repayment performance scores. Financial difficulty and insolvency have been shown to be related to occupational skill level and so skill level should be positively related to Debt Repayment Status and debt repayment performance scores. The literature surrounding employment history and financial difficulty and insolvency revealed conflicting results. Since more reports leaned in favour of inconsistent employment as a factor, it is expected that unemployment in the year prior to OPD should be negatively related to Debt Repayment Status, Program Length Score, Debt Repayment Score, and Program Duration Score.

Expense Variables.

With expenses being the principal demand on household resources, it is expected that they will play an influential role in debt repayment performance. Primarily, the variables in this category are measures of financial burden on household income resources, and include housing burden, transportation burden, and debt repayment burdens of total debt burden, OPD payment burden, and secured debt burden. The burden the demand places on resources is the focus as it represents current obligation. With respect to the burden of debt, in the literature, two debt measures related debt to income. Debt-to-income ratio is a measure of outstanding debt to gross annual income (Silvia & Whall, 1988; Canner & Luckett, 1991), and frequently excludes mortgage debt (Canner & Luckett, 1991). The debt-to-income ratio disregards the influence of longer terms that result in lower monthly payment obligations and interest rate levels (Silvia & Whall, 1988). In a simple example, two socioeconomically identical families could have the same debt-to-income ratio but in reality very different debt burdens when household A has ten years to repay a loan at a low monthly payment and household B has only two years to repay. Household B's debts will certainly be placing a higher monthly burden on the household. "Because debt maturities generally range beyond several months … a relatively small portion of the stock of debt is payable within a one-year period" (Canner, Kennickell, & Luckett, 1995, p. 324). A measure that accounts for the effect of longer terms is the ratio of total monthly debt payments to monthly income (Silvia & Whall, 1988) also called debt repayment burden (Godwin, 1996). This idea is extended to expenditure on transportation and housing where the burden these expenses place on the household has been described in the literature. Households may experience high burden in one or more of those expense areas. The final types of "burden" are the number of obligations the participant has while on the program and the planned length of the program. A greater number of debt obligations and a longer debt repayment schedule could be more difficult to manage, so these variables imply a management burden. It is expected that all forms of burden will be negatively related to Debt Repayment Status, Program Length Score, Debt Repayment Score, and Program Duration Score.

Table 4: Independent Variables: Cash Flow

Variable	Public Record Data Source	Description and Determination of Variable Values
Income (Resource Variables)		
Household Income	Affidavit	Total value of income from all sources, after source deductions (monthly net income).
Number of Employment Income Earners	Affidavit	The number of household members earning income from employment or self-employment.
Number of Income Sources	Affidavit	The total number of sources of income earned within the household.
Income Source	Affidavit	Classification of the sources of income within the household ***Income Source*** ***No*** ***Yes*** Employment 0 1 Self-Employment 0 1 Government Income Support 0 1 Government Income Security 0 1 Government Child and Family Benefits 0 1 Spousal and Child Maintenance 0 1 Rental 0 1 Other 0 1
Type of Employment	Affidavit	Classification of the type of employment of the household members based on skill level using HRDC's National Occupation Classification Matrix 2001. ***Skill Level*** ***No*** ***Yes*** Skill Level A 0 1 Skill Level B 0 1 Skill Level C 0 1 Skill Level D 0 1 Not in the Labour Force 0 1
Employment History	Affidavit	The total number of months of recent unemployment (past year) of the household income earners.
Expense (Demand Variables)		
Housing Burden	Calculated from Affidavit and Consolidation Order	Portion of household income used for housing (ratio of Housing Cost to Monthly Net Income).
Transportation Burden	Calculated from Affidavit and Consolidation Order	Portion of household income used for transportation (ratio of Transportation Cost to Monthly Net Income).
Total Debt Burden	Calculated from Affidavit and Consolidation Order	Portion of household income used for debt payments, including OPD payments (sum of OPD Debt Burden and Secured Debt Burden).
OPD Debt Burden	Calculated from Affidavit and Consolidation Order	Portion of household income used for the OPD payment (ratio of OPD Payment to Monthly Net Income).
Secured Debt Burden	Calculated from Affidavit and Consolidation Order	Portion of household income used for secured debts that are not included on the OPD program (ratio of Secured Debt Payment to Monthly Net Income).
Total number of debts during OPD	Consolidation Order	Total number of all debt obligations while on the OPD program (OPD obligation plus Number of Secured Debts Outside OPD).
Planned Program Length	Consolidation Order	Total number of months over which the OPD program is planned.

Prior Experience with Credit

Variables describing the source of the participants' debts are indications of participants' prior experience with credit and therefore are expected to be predictive of debt repayment performance. They include the type of debts held, the number of each type of debt held, the amount of each type of debt held, the percentage of each type of debt as compared to total debt, and the number of obligations held before the program. With the literature reviewed pointing to higher debts, greater numbers of debt obligations, and alternative financial sector debt as being more problematic for consumers, these factors should also be related to lower likelihood of program completion and poorer debt repayment performance.

Table 5: Independent Variables: Prior Experience with Credit

Variable	Public Record Data Source	Description and Determination of Variable Values
Prior Experience with Credit (Resource Variables)		
Total number of debts prior to OPD	Consolidation Order	The number of debts the participant had prior to the OPD program.
Types of Debts	Consolidation Order	Classification of the types of debt the participant has either inside or outside the order on the basis of source. ***Type of Debt*** — ***No*** — ***Yes*** Government — 0 — 1 Bank — 0 — 1 Bank Credit Card — 0 — 1 Retail Credit Card — 0 — 1 Student Loan — 0 — 1 Other Financial Institution — 0 — 1 Vehicle Finance Institution — 0 — 1 Utilities — 0 — 1 Private Individuals — 0 — 1 Other — 0 — 1
Number of Debts by Type	Consolidation Order	Total number each of the types of debt (as listed above) the participant has either inside or outside the order on the basis of source.
Amount of Debts by Type	Consolidation Order	Total value of each of the types of debt (as listed above) the participant has either inside or outside the order on the basis of source.
Percentage of Debts by Type	Consolidation Order	The amount of each type of debt as a percentage of total debt.

Analyses

This study examined four dependent variables that measured success on the OPD program: Debt Repayment Status and three measures of debt repayment performance (Program Length Score, Debt Repayment Score, and Program Duration Score). The statistical analyses included descriptive statistics, comparative analyses, and multivariate analyses. Descriptive statistics, including frequencies and measures of central tendency where appropriate, were used to describe the sample of OPD participants included in the study on the basis of socioeconomic characteristics. Cross tabulations for categorical variables and t-tests for continuous variables were used to make comparisons between the group of participants who paid in full and the group of participants who defaulted from the program. This permitted the significant differences between the groups to be identified and revealed whether the samples were in fact independent. The comparative analyses aided in determining whether the characteristics that differentiated the two groups of participants also proved to be predictors of debt repayment performance in the subsequent multivariate analyses.

Finally, multivariate statistics were employed to analyze the relationships between independent and dependent variables. Each debt repayment performance variable was subjected to multivariate testing appropriate to the measurement scale of the variables. Debt Repayment Status is a dichotomous dependent variable that divided the OPD sample into two groups, participants who completed the OPD program and participants who did not complete the OPD program. Binary logistic regression was used in this analysis. The remaining dependent variables, Program Length Score, Debt Repayment Score, and Program Duration Score, are quasi-continuous measures of debt repayment performance on the OPD program. The dependent variable of Program Length Score applies only to the portion of the sample that completed the OPD program as classified by the dependent variable Debt Repayment Status. Debt Repayment Score and Program Duration Score apply only to the portion of the sample that did not complete the OPD program.

The literature reviewed provided indications as to the relationships that may be expected between socioeconomic variables and debt repayment performance on OPD. The following summarizes the anticipated relationships between the socioeconomic variables and debt repayment performance.

Table 6: Relationship Hypotheses - Household Variables

	Dependent Variables			
		Debt Repayment Performance Scores		
		Paid in Full	Defaulted	
Independent Variables	**Debt Repayment Status**	**Program Length Score**	**Debt Repayment Score**	**Program Duration Score**
Resource Variables				
Age	Positive	Negative	Positive	Positive
Order Composition: Male on individual program	Negative	Positive	Negative	Negative
Marital Status Married = 1 Not married = 0	Positive	Negative	Positive	Positive
Demand Variables				
Number of Full Dependents	Negative	Positive	Negative	Negative
Number of Partial Dependents	Negative	Positive	Negative	Negative

Table 7: Relationship Hypotheses - Net Worth

Independent Variables	Dependent Variables			
	Debt Repayment Status	Debt Repayment Performance Scores		
		Paid in Full	Defaulted	
		Program Length Score	Debt Repayment Score	Program Duration Score
Asset (Resource Variables)				
Assets	Positive	Negative	Positive	Positive
Emergency Fund	Positive	Negative	Positive	Positive
Housing Status Homeowner = 1 Renter = 0	Positive	Negative	Positive	Positive
Debt (Demand Variables)				
Total Debts	Negative	Positive	Negative	Negative
Total OPD Debts	Negative	Positive	Negative	Negative
Total Secured Debts	Negative	Positive	Negative	Negative
Net Worth				
Net Worth	Positive	Negative	Positive	Positive

Table 8: Relationship Hypotheses – Cash Flow

Independent Variables	Dependent Variables			
	Debt Repayment Status	Debt Repayment Performance Scores		
		Paid in Full	Defaulted	
		Program Length Score	Debt Repayment Score	Program Duration Score
Income (Resource Variables)				
Household Income	Positive	Negative	Positive	Positive
Number of Employment Income Earners	Positive	Negative	Positive	Positive
Number of Income Sources	Negative	Positive	Negative	Negative
Type of Employment	Positive	Negative	Positive	Positive
Employment History	Negative	Positive	Negative	Negative
Income Source				
Government Income Security	Negative	Positive	Negative	Negative
Government Income Support	Negative	Positive	Negative	Negative
Self-Employment	Negative	Positive	Negative	Negative
Expense (Demand Variables)				
Housing Burden	Negative	Positive	Negative	Negative
Transportation Burden	Negative	Positive	Negative	Negative
Total Debt Burden	Negative	Positive	Negative	Negative
OPD Debt Burden	Negative	Positive	Negative	Negative
Secured Debt Burden	Negative	Positive	Negative	Negative
Total number of debts during OPD	Negative	Positive	Negative	Negative
Planned Program Length	Negative	Positive	Negative	Negative

Table 9: Relationship Hypotheses – Prior Experience with Credit

Independent Variables	Dependent Variables			
	Debt Repayment Status	Debt Repayment Performance Scores		
		Paid in Full	Defaulted	
		Program Length Score	Debt Repayment Score	Program Duration Score
Prior Experience with Credit (Resource Variables)				
Total Number of Debts (before OPD)	Negative	Positive	Negative	Negative
Types of Debts, Number of Debts by Type, Amount of Debts by Type, and Percentage of Debts by Type				
Alterative Financial Sector	Negative	Positive	Negative	Negative
Utilities	Negative	Positive	Negative	Negative
Other	Negative	Positive	Negative	Negative

Results

Description of the Sample

The first objective of this project was to provide a description of the socioeconomic characteristics of participants of the OPD program. Not all variables included were identified as appropriate for later analyses; however, they effectively describe the participants of the program. Descriptive results are provided for four groups of variables: household characteristics, net worth, cash flow, and prior experience with credit.

Household Characteristics

OPD programs can be set up with one participant or can be set up as joint with more than one participant. Most programs comprised single participants (78%) of which 45% were male and 33% were female. This is not the equivalent of marital status of the participants. While 78% of programs were set up with a single participant, 58% of the sample identified themselves as married or common-law, and only 42% as single or equivalent to single.

Table 10: Order Composition

Program Participant	Frequency	Percent
Male	145	44.9
Female	106	32.8
Couples	72	22.3
Total	323	100.0

Table 11: Marital Status

Status	Frequency	Percent
Married	97	30.0
Common-law	37	11.5
Single	127	39.3
Separated	31	9.6
Divorced	26	8.0
Widowed	5	1.5
Total	323	100.0

The sample was relatively young with nearly 3 out of 4 participants being under the age of 40, and of those, half were under the age of 30.

Table 12: Age

Age Range	Frequency		Percent	
< 30 years	120		37.2	
30 – 39 years	116		35.9	
40 – 49 years	53		16.4	
≥ 50 years	34		10.5	
Total	323		100.0	
Summary Statistics (raw data)	Mean	Standard Deviation	Range	
			Minimum	Maximum
	34.8 years	10.70 years	18 years	78 years

Most participants were living in small households. Slightly more than half of all participants were living alone and more than 80% were living in households of fewer than three members. Most clients did not have either full or partial dependents (non-custodial children, ex-partners to whom child or spousal maintenance is paid, adult children who are not yet living self-sufficiently, and older parents with low fixed incomes). Less than 40% of clients had full dependents and 17% had partial dependents.

Table 13: Number of Household Members

Number	Frequency		Percent	
1	164		50.8	
2	53		16.4	
3	45		13.9	
4	39		12.1	
5 or greater	22		6.8	
Total	323		100.0	
Summary Statistics (raw data)	Mean	Standard Deviation	Range	
			Minimum	Maximum
	2.08	1.34	1	6

Table 14: Number of Full Household Dependents

Number	Frequency		Percent	
0	198		61.3	
1	48		14.9	
2	41		12.7	
3 or greater	36		11.1	
Total	323		100.0	
Summary Statistics (raw data)	Mean	Standard Deviation	Range	
			Minimum	Maximum
	0.75	1.09	0	4

Table 15: Number of Partial Household Dependents

Number	Frequency		Percent	
0	268		83.0	
1	33		10.2	
2 or greater	22		6.8	
Total	323		100.0	
Summary Statistics (raw data)	Mean	Standard Deviation	Range	
			Minimum	Maximum
	0.26	0.66	0	3

The majority of participants resided in urban locations (80%) in major cities such as Edmonton, Calgary, Red Deer, and Lethbridge.

Table 16: Residence Location

Residence	Frequency	Percent
Rural	65	20.1
Urban	258	79.9
Total	323	100.0

Net Worth

Data were gathered about clients' assets (emergency funds, household goods, vehicles, and property) and debts (amount of debt, number of debts, and types of debts). Very few participants held any financial assets and the mean savings was less than $350.00. Net worth (excluding the home) was calculated for each participant and the resulting mean was -$11,860.00, indicating that participants owed more than they owned. Most clients were renters (86%) as opposed to homeowners (14%). When the home was included in net worth, the mean was about

$2000.00 higher at -$9,750.00, so homeowners did not have much equity in their homes.

Participants on average had debts of $12,000.00 included on their programs and an additional $5,800.00 in secured debt excluded from their programs for a total debt load of just under $18,000.00.

Table 17: Net Worth

Assets	Mean	Standard Deviation	Range	
			Minimum	Maximum
Emergency Funds	$342.92	$1350.59	$0	$14,004.00
Net Worth (Excluding Home)	-$11,859.42	$12,041.59	-$69,672.80	$22,607.21
Net Worth (Including Home)	-$9,753.35	$12,066.39	-$69,672.80	$46,119.14
Debts	Mean	Standard Deviation	Range	
			Minimum	Maximum
Total Debts on OPD	$12,001.21	$9,211.66	$1,268.04	$57,095.30
Total Secured Debts	$5,846.41	$8,801.63	$0	$41,000.00
Total Debts	$17,916.19	$14,322.24	$1,268.04	$70,072.80

Table 18: Housing Status

Type	Frequency	Percent
Renter	278	86.1
Owner	45	13.9
Total	323	100.0

Cash Flow

Information on income-related factors (income sources, number of income earners and income sources, and skill level of employment), was gathered in addition to income figures to provide a complete picture of income as a resource. Monthly net income was selected to describe household income instead of gross income because the amount after employment deductions (where applicable) best represents the resource the household can employ to meet demands. Mean income for the sample was about $2,200.00 per month. Half of participants had net monthly household income of less than $2,000.00 per month and 4 out of 5 had incomes below $3000.00 per month.

Table 19: Household Net Income

Number	Frequency	Percent
< $1000	26	8.0
$1000 - $1999	138	42.7
$2000 - $2999	96	29.7
$3000 - $3999	41	12.7
≥$4000	22	6.8
Total	323	100.0

Summary Statistics (raw data)	Mean	Standard Deviation	Range	
			Minimum	Maximum
	$2,190.47	$1,066.53	$400.00	$7400.00

Most households (71.8%) comprised a single income earner. A small portion of households (4.6%) were not employed in the labour force. While the majority of participants had income from only one source, 48.6% of the sample had more than one source of income coming into the households. A few households had as many as seven different sources of income to manage.

Table 20: Number of Employment Income Earners

Number	Frequency	Percent
0	15	4.6
1	232	71.8
2	76	23.5
Total	323	100.0

Summary Statistics	Mean	Standard Deviation	Range	
			Minimum	Maximum
	1.19	0.497	0	2

Table 21: Number of Income Sources

Number	Frequency	Percent
1 or less (2)	166	51.4
2	76	23.5
3	59	18.3
4 or greater	22	6.8
Total	323	100.0

Summary Statistics (raw data)	Mean	Standard Deviation	Range	
			Minimum	Maximum
	1.83	1.061	0	7

Over 90% of participants had income from paid employment, the most frequently indicated source of income. Government income support programs such as Assured Income for Severely Handicapped (AISH) and Supports for Independence (SFI) and government income security programs such as Employment Insurance (EI), Canada Pension Plan Benefits (CPP), and Old Age Security Pension (OAS) were income sources for 3.4% and 8% of participants respectively. Both government income support programs and government income security programs are paid when employment income is lost, very low, or when the participant is unable to work. The most frequently mentioned source of government income was government child and family benefits such as Child Tax Benefit (27.6%), which is comparable with the number of participants with fully dependent children (38.7%).

Table 22: Income Source

Source	Yes		No	
	Frequency	Percent	Frequency	Percent
Employment	294	91.0	29	9.0
Self-Employment	22	6.8	301	93.2
Government Income Support	11	3.4	312	96.6
Government Income Security	26	8.0	297	92.0
Government Child and Family Benefits	89	27.6	234	72.4
Spousal and Child Maintenance	28	8.7	295	91.3
Rental	13	4.0	310	96.0
Other	21	6.5	302	93.5

Participants' occupations were classified under HRDC's National Occupational Classification Matrix 2001. Less than 2% of the sample were employed in the highest skill level occupations, where university education is normally required. Nearly 2 out of 3 participants were employed in occupations classified as the lowest skill levels, with 35.4% being employed in jobs requiring college or apprenticeship and 30.7% in jobs where training is provided.

Table 23: Type of Employment by Skill Level (Reference Person)

Type	Frequency	Percent
Skill Levels A and B	94	29.1
Skill Level C	111	34.4
Skill Level D	99	30.7
Not in Labour Force	19	5.8
Total	323	100.0

Information on basic household expenses as well as debt obligations was gathered. These household expenses were compared to income to establish the burden each expense type placed on the households' resources. Housing was the greatest burden on households at 29%. Total debt burden is the sum of participants' required OPD monthly payment and secured debt monthly payment as compared with monthly income. The demand debt placed on participants' households was higher than all other major expenses, except housing. Participants had up to 71% of net household income committed to total debt repayment obligations, with a mean of just less than ¼ of household net income.

Table 24: Expenses

Expense Category	Mean	Standard Deviation	Range	
			Minimum	Maximum
Housing Cost	$625.58	$343.30	$0	$2,214.00
Housing Burden	28.99%	11.68%	0%	62.86%
Transportation Cost	$130.51	$98.16	$0	$530.83
Transportation Burden	9.65%	6.34%	0%	40.01%
OPD Monthly Payment	$319.34	$243.49	$40.00	$1,670.00
OPD Burden	14.91%	8.32%	1.62%	50.32%
Secured Monthly Debt Payment	$199.82	$256.84	$0	$1,136.37
Secured Debt Burden	8.20%	10.10%	0%	46.74%
Total Monthly Debt Payment	$519.16	$371.07	$40.00	$2,060.00
Total Debt Burden	23.11%	11.55%	2.34%	70.73%

Slightly more that half of participants had secured debts in addition to the debts included in their programs. For participants this means a greater number of debt obligations for which they are responsible. Almost half had one or two secured debts outside of their programs for a total of two or three debt obligations while on OPD.

<table>
<tr><th colspan="5">Table 25: Total Number of Debts During OPD</th></tr>
<tr><th>Number</th><th colspan="2">Frequency</th><th colspan="2">Percent</th></tr>
<tr><td>1 (OPD payment only)</td><td colspan="2">160</td><td colspan="2">49.5</td></tr>
<tr><td>2</td><td colspan="2">106</td><td colspan="2">32.8</td></tr>
<tr><td>3 or greater</td><td colspan="2">57</td><td colspan="2">17.7</td></tr>
<tr><td>Total</td><td colspan="2">323</td><td colspan="2">100.0</td></tr>
<tr><td rowspan="3">Summary Statistics
(raw data)</td><td rowspan="2">Mean</td><td rowspan="2">Standard Deviation</td><td colspan="2">Range</td></tr>
<tr><td>Minimum</td><td>Maximum</td></tr>
<tr><td>0.72</td><td>0.856</td><td>1</td><td>7</td></tr>
</table>

Participants' programs varied in length from less than one year to longer than six years and 80% were between 2 and 5 years in length. Programs for ¾ of participants were planned for four years or shorter with a mean of about 3 ½ years.

<table>
<tr><th colspan="5">Table 26: Planned Program Length</th></tr>
<tr><th>Number</th><th colspan="2">Frequency</th><th colspan="2">Percent</th></tr>
<tr><td>1 – 12 months</td><td colspan="2">9</td><td colspan="2">2.8</td></tr>
<tr><td>13 – 24 months</td><td colspan="2">37</td><td colspan="2">11.5</td></tr>
<tr><td>25 – 36 months</td><td colspan="2">75</td><td colspan="2">23.2</td></tr>
<tr><td>37 – 48 months</td><td colspan="2">121</td><td colspan="2">37.5</td></tr>
<tr><td>49 – 60 months</td><td colspan="2">63</td><td colspan="2">19.5</td></tr>
<tr><td>≥ 61 months (over 5 years)</td><td colspan="2">18</td><td colspan="2">5.5</td></tr>
<tr><td>Total</td><td colspan="2">323</td><td colspan="2">100.0</td></tr>
<tr><td rowspan="3">Summary Statistics
(raw data)</td><td rowspan="2">Mean</td><td rowspan="2">Standard Deviation</td><td colspan="2">Range</td></tr>
<tr><td>Minimum</td><td>Maximum</td></tr>
<tr><td>41.2 mo.</td><td>17.63</td><td>4 months</td><td>167 months</td></tr>
</table>

Prior Experience with Credit

Participants' debts were classified into eleven debt categories. The most commonly held forms of debt were bank credit cards (71.2%), and retail credit cards (62.5%). About half of participants held government debt (51.7%) and bank debt (49.2%). Approximately one third of participants (32.2%) owed debt to other financial institutions that charge higher rates of interest (24% to 40% interest) than banks and/or had unpaid utilities (32.2%). About 10% of the sample held alternative financial sector debt, which is the type of debt with the poorest terms of borrowing (fees and high interest).

Table 27: Type of Debts Held by Participant

Type of Debt	Yes		No	
	Frequency	Percent	Frequency	Percent
Government	167	51.7	156	48.3
Bank	159	49.2	164	49.2
Bank Credit Card	230	71.2	93	28.8
Retail Credit Card	202	62.5	121	37.5
Student Loan	57	17.6	266	82.4
Other Financial Institution	104	32.2	219	67.8
Vehicle Finance Institution	39	12.1	284	87.9
Alternative Financial Sector	33	10.2	290	89.8
Utilities	104	32.2	219	67.8
Private Individuals	21	6.5	302	93.5
Other	89	27.6	234	72.4

Bank credit cards (1.33 cards) and retail credit cards (1.41) were the only types of debt for which clients held more than one debt. Some participants had as many as eight retail or bank credit cards. The highest number of alternative financial sector debts was eight.

For each type of debt the consumer had, two calculations were completed: (1) total dollar amount, and (2) proportion of total debt. The highest amounts and proportions of debts held were bank and bank credit cards. Bank borrowing may be high because banks would be one means for clients to finance a large purchase, such as a vehicle. Bank credit cards are more flexible than retail credit cards because they are more universally accepted, which may explain the higher average bank credit card debt.

Table 28: Total Amount of Debts by Type of Debt

Type of Debt	Mean	Standard Deviation	Range	
			Minimum	Maximum
Government	$1,459.83	$4,553.68	$0	$57,095.30
Bank	$4,743.93	$8,200.00	$0	$43,321.92
Bank Credit Card	$3,805.94	$5,367.14	$0	$40,676.87
Retail Credit Card	$1,944.33	$2,619.39	$0	$20,131.10
Student Loan	$1,658.47	$4,841.70	$0	$33,971.91
Other Financial Institution	$1,525.87	$2,951.19	$0	$16,000.00
Vehicle Finance Institution	$1,511.74	$5,049.65	$0	$37,000.00
Alternative Financial Sector	$175.84	$742.89	$0	$9,500.00
Utilities	$329.84	$796.62	$0	$9,040.71
Private Individuals	$251.02	$1,573.37	$0	$20,000.00
Other	$509.38	$1,888.76	$0	$25,542.94

Table 29: Percentage of Debts by Type of Debt

Type of Debt	Mean	Standard Deviation	Range	
			Minimum	Maximum
Government	10.10%	20.04%	$0	100.00%
Bank	19.58%	26.56%	$0	100.00%
Bank Credit Card	22.58%	25.43%	$0	100.00%
Retail Credit Card	13.91%	19.65%	$0	100.00%
Student Loan	9.94%	24.75%	$0	100.00%
Other Financial Institution	8.47%	16.08%	$0	89.98%
Vehicle Finance Institution	4.86%	14.84%	$0	78.94%
Alternative Financial Sector	2.12%	9.65%	$0	100.00%
Utilities	3.59%	10.11%	$0	76.68%
Private Individuals	1.23%	6.80%	$0	81.66%
Other	3.62%	9.45%	$0	49.46%

Looking at the number of debts held by consumers before the program began gives some indication of what they were trying to manage when they sought financial counselling. These results include both unsecured debts that were included on the program and secured debts that were not included on the program. The largest proportion of participants had between 6 and 10 debts (46%) with a mean of 6.7 debts. Most participants had 10 or fewer debts (87%), leaving 13% with between 11 and 23 debts before starting the program.

<table>
<tr><th colspan="5">Table 30: Total Number of Debts Before OPD</th></tr>
<tr><td>Number</td><td colspan="2">Frequency</td><td colspan="2">Percent</td></tr>
<tr><td>1 – 5</td><td colspan="2">133</td><td colspan="2">41.3</td></tr>
<tr><td>6 – 10</td><td colspan="2">148</td><td colspan="2">45.9</td></tr>
<tr><td>11 or greater</td><td colspan="2">42</td><td colspan="2">12.8</td></tr>
<tr><td>Total</td><td colspan="2">323</td><td colspan="2">100.0</td></tr>
<tr><td rowspan="3">Summary Statistics (raw data)</td><td rowspan="2">Mean</td><td rowspan="2">Standard Deviation</td><td colspan="2">Range</td></tr>
<tr><td>Minimum</td><td>Maximum</td></tr>
<tr><td>6.70</td><td>3.46</td><td>1</td><td>23</td></tr>
</table>

Debt Repayment Status:
Comparison of Paid in Full and Defaulted Groups

The dependent variable Debt Repayment Status divided the sample into two independent groups: participants who paid in full and participants who defaulted from the program. The second objective of this research was to compare and contrast OPD participants who completed the OPD program with OPD participants who did not complete the OPD program on the basis of socioeconomic characteristics. Pearson Chi Square and T-Tests were conducted to determine whether the sample of participants who paid in full were systematically different from participants who defaulted from the program on the basis of socioeconomic characteristics.

There were no significant differences between paid in full and defaulted participants for any of the household characteristics except that defaulted participants had slightly larger households.

Significant differences were found between paid in full participants and defaulted participants with respect to net worth. Paid in full participants had a higher net worth than defaulted participants, (with home equity included, $t_{(321)} = -2.975$, p. = .003, or not, $t_{(321)} = -2.028$, p. = .043), even though both had negative net worths. Paid in full participants had lower amounts of debt on their programs ($t_{(318)} = 3.060$, p. = .002, and lower total debts (secured and unsecured) ($t_{(321)} = 2.079$, p. = .038).

Defaulted clients had about \$3,000 more debt on their programs, and about \$3,400 more debt overall. The planned program length for defaulted participants was about 20% longer than that of paid in full clients ($t_{(321)} = 3.792$, p. = .000). This was the result of the higher amount of debt, since no significant difference was found in the size of the monthly OPD payment between paid in full participants and defaulted participants.

Significant differences between paid in full participants and defaulted participants also were found with respect to cash flow. Type of employment as defined by skill level was found to be a significant difference between clients who paid in full and clients who defaulted from the program. Paid in full participants were more often employed in jobs that required higher skill levels and less often employed in lower skill level jobs than defaulted participants ($\chi^2_{(4, 323)} = 14.427$, p. = .006).

The sources of household income also varied between paid in full participants and defaulted participants. Defaulted participants were about 7 times more likely to have household income from self-employment ($\chi^2_{(1, 323)} = 6.952$, p. = .006), 7 ½ times more likely to receive government child and family benefits ($\chi^2_{(1, 323)} = 7.551$, p. = .006), and more than 6 times more likely to receive spousal or child maintenance than paid in full participants ($\chi^2_{(1, 323)} = 6.391$, p. = .008). A larger portion of paid in full participants had household income from employment than defaulted participants ($\chi^2_{(1,323)} = 3.438$, p. 0.046). In terms of the dollars of household income, defaulted participants had higher net income than paid in full participants ($t_{(321)}$ = 1.951, p. = 0.052).

Significant differences between clients who paid in full and clients who defaulted were found with respect to transportation costs. Defaulted participants had higher transportation costs ($t_{(321)}$ = 1.943, p. = .05), and those costs placed a higher burden on the household income than was the case for paid in full clients ($t_{(.321)}$ = 1.943, p. = .05).

Differences between paid in full participants and defaulted participants also were found in the number, type and assortment of debts. Defaulted clients were managing a greater number of debts prior to the OPD program ($t_{(321)}$ = 4.112, p. = .000). As compared to paid in full participants, defaulted participants were significantly more likely to have debt from poor quality sources, including alterative financial sector debt, utility debt, and debt from other sources. Defaulted participants were almost 18 times more likely to have debt from the alternative financial sector ($\chi^2_{(1,\ 323)}$ = 17.863, p. = .000), which have the highest interest rates among lenders. They also were nearly 21 times more likely to have utility debts ($\chi^2_{(1,\ 323)}$ = 20.970, p. = .000), and 16 times more likely to have debt from other sources ($\chi^2_{(1,\ 323)}$ = 16.141, p. = .000), than paid in full participants. Both utility debts and debt from other sources such as bounced cheques and unpaid consumer services are not by definition “credit”, but are expected to be paid upon receipt of the good or service.

Defaulted participants had a greater number and a higher amount (dollar value) of government debt ($t_{(321)}$ = 1.990, p. = 0.047; $t_{(267)}$ = 2.009, p. = .046), alternative financial sector debt ($t_{(220)}$ = 4.051, p. = .000; $t_{(200)}$ = 3.961, p. = .000), utility debt ($t_{(321)}$ = 4.226, p. = .000; $t_{(284)}$ = 3.885, p. = .000), and debt from other sources ($t_{(308)}$ = 4.513, p. = .000; $t_{(259)}$ = 2.910, p. = .004) than paid in full clients. Alternative financial sector debt and debt from other sources comprised a significantly larger percentage of the total debt of defaulted participants than paid in full participants ($t_{(200)}$ = 3.652, p. = .000). As a whole, defaulted participants had 4 times as many, 4 times as much, and 3 times greater percentage of alternative financial sector debt as paid in full clients. Paid in full participants had significantly fewer, smaller dollar amounts, and lower percentage of total debts from poor quality sources.

Multivariate Analyses: Predictors of Success

The final objective was to complete a multivariate correlational analysis to explore relationships between socioeconomic variables and measures of debt repayment performance in order to determine whether socioeconomic variables can be used to predict debt repayment performance on OPD. Results follow for the analyses of the four dependent variables: Debt Repayment Status, Program Length Score (Paid in Full group), and Program Duration Score and Debt Repayment

Score (Defaulted group). The same independent variables were used in the model for each of the dependent variables.

Debt Repayment Status

The first of the four dependent variables divides the sample into two groups: paid in full and defaulted. Forty percent of the sample completed the program and 60% defaulted from the program. This variable answers the question as to which socioeconomic variables were related to completing or not completing the OPD program. The independent variables represent the four broad factors identified in the conceptual model: household characteristics, net worth, cash flow, and prior experience with credit. The analysis identified eight significant predictors: order composition (male), total number of debts before OPD, planned program length, self-employment income, government child and family benefits, other income, transportation burden, and poor quality debt. Men on programs as individuals were only 25% as likely to pay in full, regardless of marital status, as couples on programs together. For each 1% increase in transportation cost burden, the likelihood of paying in full was reduced by 7%. As for the total number of debt obligations before starting OPD, each additional debt reduced the chance of completing the program by about 17%. Planned program length was the number of months the program was expected to last as determined by the size of the monthly payment, the amount of debt included on the program, and the

5% interest rate of OPD. For each additional month required to complete the program, participants were 3% less likely to pay in full, indicating longer programs were more often defaulted.

Three income sources produced significant results: self-employment income, government child and family benefits, and other income. Participants with income from self-employment were 14% as likely to complete the program as participants who earned no income from self-employment. Participants who received government child and family benefits were nearly 70% less likely to finish the program. Participants with income from other sources, which was generally employment pension benefits, are nearly 4 times as likely to pay in full as those without such income. Poor quality debt was the only type of debt significantly related to debt repayment status. For each 1% percent increase in poor quality debt as a proportion of total debt, the participant was nearly 4% less likely to pay their debt in full on the program.

Table 31: Debt Repayment Status

Binary Logistic Regression

Factors	Independent Variable	Odds Ratio (Exp (B))	Wald Statistic
Household			
Resource Variables	Age	1.003	0.047
	Order Composition: Male on Program	0.247	7.796**
	Order Composition: Female on Program	0.459	2.376
	Marital Status	1.119	0.076
Demand Variables	Number of Full Dependents	1.150	0.428
	Number of Partial Dependents	0.716	2.008
Net Worth			
Resource Variables	**Asset and Summary Variable**		
	Housing Status	2.105	2.840
Demand Variables	**Debt Variables**		
	Net Worth (Assets – Debts)	1.003	2.925
Cash Flow			
Resource Variables	Income Variables		
	Employment History	0.954	1.082
	Income Sources		
	Self-Employment	0.135	7.232**
	Government Income Support	0.444	0.829
	Government Income Security	0.596	0.760
	Government Child and Family Benefits	0.317	5.115*
	Spousal and Child Maintenance	0.401	2.050
	Rental	0.547	0.480
	Other	3.918	4.599*
Demand Variables	Expense Variables		
	Total Debt Burden	1.015	0.777
	Housing Cost Burden	0.993	.202
	Transportation Cost Burden	0.930	8.924**
	Planned Program Length	0.967	8.061**
Prior Experience with Credit			
Resource Variables	Total number of debts (before OPD)	0.830	8.876**
	Percentages of Total Debt by Debt Type		
	Bank Credit Card	0.992	1.844
	Retail Credit Card	0.996	0.276
	Other Financial Institution	0.990	1.204
	Poor Quality Debt	0.962	10.973***
Model Summary	N	Nagelkerke R Square	-2 Log Likelihood
	323	0.371	331.639

Paid in Full Group

Program Length Score.

Program Length Score measures how closely the participant met the time requirements of the program as determined when the program was set up. Of clients who completed the program, 52% finished ahead of schedule, 17% finished on time (within ± 5% of planned program length), and 31% finished behind schedule.

The model of Program Length Score was found to be significant and to explain 46% of the variation in scores. Several socioeconomic factors were significantly related to Program Length Score, including the total number of debts the participant had before the program, the planned program length, and the percentages of total debt comprising bank credit card debt, retail credit card debt, and poor quality debt. For every additional debt the client had prior to the OPD program, the actual time required to complete the program was reduced by 3.3%. Planned program length also influenced the program length score, as each additional month reduced the time required to pay in full by 1.5%. Three types of debt also were important: bank credit card debt, retail credit card debt, and poor quality debt. For each one percent increase in the proportion of total debt comprising bank credit card debt, retail credit card debt, and poor quality debt, the time needed to finish the program was increased by 0.3%, 0.48%, and 0.52% respectively.

Table 32: Program Length Score

Ordinary Least Squares Regression

Factors	Independent Variable	Coefficients		t statistic
		Unstandardized	Standardized	
Household				
Resource Variables	Age	0.387	-0.113	-1.198
	Order Composition: Male on Program	-8.211	-0.101	-0.707
	Order Composition: Female on Program	-4.726	-0.570	-0.401
	Marital Status	3.305	0.041	0.355
Demand Variables	Number of Full Dependents	-0.365	-0.010	-0.082
	Number of Partial Dependents	-1.757	-0.026	0.319
Net Worth				
Resource Variables	Asset and Summary Variable			
	Housing Status	17.979	0.173	1.802
Demand Variables	Debt Variables			
	Net Worth (Assets – Debts)	-5.747	-0.161	-1.583
Cash Flow				
Resource Variables	Income Variables			
	Employment History	1.610	0.160	1.451
	Income Sources			
	Self-Employment	12.718	0.048	0.565
	Government Income Support	14.202	0.062	0.649
	Government Income Security	-4.723	-0.330	-0.343
	Government Child and Family Benefits	-10.903	-0.108	-0.935
	Spousal and Child Maintenance	-4.677	-0.023	-0.256
	Rental	-12.490	-0.047	-0.491
	Other	-11.832	-0.086	-0.991
Demand Variables	Expense Variables			
	Total Debt Burden	0.509	0.156	1.542
	Housing Cost Burden	-6.794E-02	-0.016	-0.206
	Transportation Cost Burden	-0.582	-0.081	-0.991
	Planned Program Length	-1.419	-0.474	-4.893 ***
Prior Experience with Credit				
Resource Variables	Total number of debts (before OPD)	-3.272	-0.235	-2.079*
	Percentages of Total Debt by Debt Type			
	Bank Credit Card	0.285	0.188	2.265 *
	Retail Credit Card	0.478	0.240	2.845 **
	Other Financial Institution	0.416	0.154	1.877
	Poor Quality Debt	0.521	0.185	2.144 *
Model Summary	N	F Statistic	R Square	Significance
	130	3.542	0.460	0.000

Defaulted Group

Program Duration Score.

Program Duration Score is the percentage of the planned program length that elapsed before the program was closed in default. Of participants who defaulted from the program nearly three-quarters defaulted before the halfway point of the program, and almost 40% were defaulted before a quarter of the program had elapsed. To put this into context, based on an average program length of 3 ½ years, one-quarter would have defaulted in less than one year and three-quarters would have defaulted in less than 2 years.

The model for Program Duration Score was significant and explained about 27% of the variation in program duration. Program Duration Score was significantly related to three socioeconomic characteristics, including planned program length, employment history over the 12 months prior to starting the program, and percentage of poor quality debt. The portion of the program that the participant endured before defaulting decreased by 0.55% for each additional month of planned program length. Participants also lasted 1.7% less time on the program for each additional month of household unemployment in the year preceding the OPD program. Poor quality debt was the only debt type that impacted how long the participant remained on the program. For each one percent increase in poor quality debt in the debt portfolio, the participant stayed on the program for an additional 0.3% of the planned length. The impacts of these variables on how long the participant endured on the program seem small; however, most defaulted early in their programs.

Table 33: Program Duration Score

Ordinary Least Squares Regression

Factors	Independent Variable	Coefficients		t Statistic
		Unstandardized	Standardized	
Household				
Resource Variables	Age	3.249E-02	0.011	0.139
	Order Composition: Male on Program	-2.477	-0.041	-0.350
	Order Composition: Female on Program	0.908	0.014	0.119
	Marital Status	-3.014	-0.050	-0.507
Demand Variables	Number of Full Dependents	3.440	0.126	1.087
	Number of Partial Dependents	2.119	0.049	0.682
Net Worth				
Resource Variables	**Asset and Summary Variable**			
	Housing Status	3.945	-0.042	-0.557
Demand Variables	**Debt Variables**			
	Net Worth (Assets – Debts)	-3.621E-03	-0.015	-0.169
Cash Flow				
Resource Variables	**Income Variables**			
	Employment History	-1.656	-0.210	-2.317 *
	Income Sources			
	Self-Employment	6.908	0.069	0.970
	Government Income Support	14.444	0.090	1.095
	Government Income Security	-9.598	-0.086	-1.170
	Government Child and Family Benefits	0.727	0.011	.106
	Spousal and Child Maintenance	3.310	0.036	0.434
	Rental	1.730	0.013	1.80
	Other	20.001	0.141	1.726
Demand Variables	**Expense Variables**			
	Total Debt Burden	17.952	0.066	0.629
	Housing Cost Burden	-8.451	-0.031	-0.338
	Transportation Cost Burden	-2.631	-0.006	-0.078
	Planned Program Length	-0.550	-0.358	-4.487 ***
Prior Experience with Credit				
Resource Variables	Total number of debts (before OPD)	-0.964	-0.119	-1.358
	Percentages of Total Debt by Debt Type			
	Bank Credit Card	-9.641E-02	-0.079	-1.060
	Retail Credit Card	0.153	0.099	1.293
	Other Financial Institution	-7.689E-02	-0.043	-0.601
	Poor Quality Debt	0.322	0.214	2.470 *
Model Summary	N	F Statistic	R Square	Significance
	193	2.499	0.272	0.000

Debt Repayment Score.

Debt Repayment Score measures the percentage of debt repaid prior to the program being defaulted. Nearly three-quarters of defaulted participants repaid less than 25% of their debt prior to default with a mean of 19% repaid. Almost one-third repaid less than 5% of their debt and 17 participants (9%) did not make any payments on the program. The model did not explain a significant amount of the variance in Debt Repayment Score.

Table 34: Debt Repayment Score

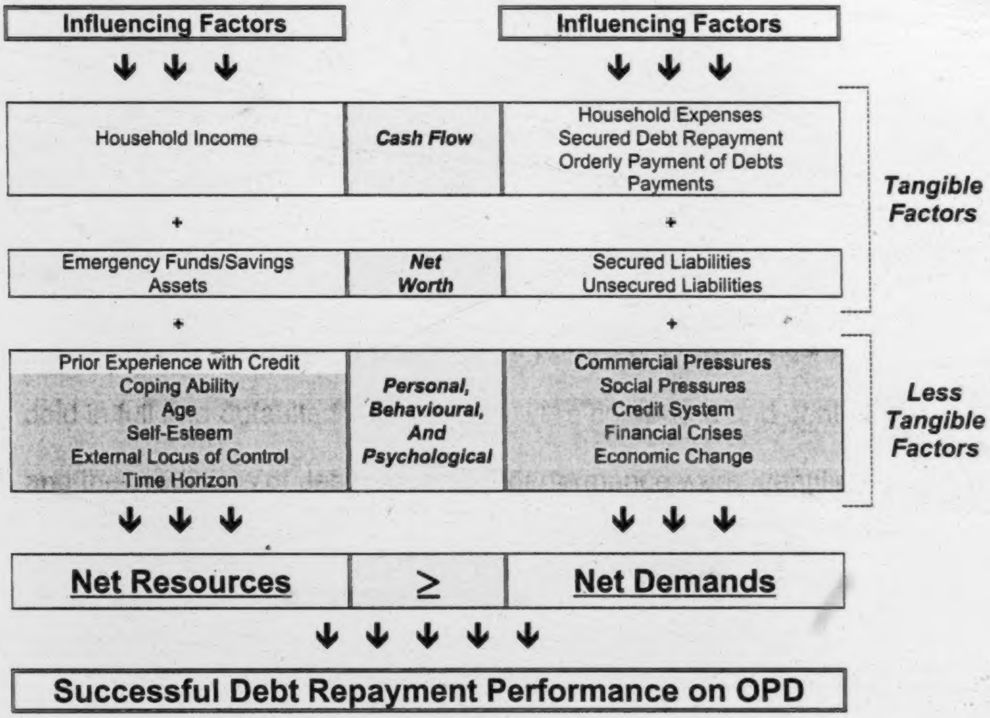
Ordinary Least Squares Regression

Factors	Independent Variable	Coefficients		t Statistic
		Unstandardized	Standardized	
Household				
Resource Variables	Age	-4.406E-02	-0.020	-0.238
	Order Composition: Male on Program	3.765	0.094	0.730
	Order Composition: Female on Program	3.640	0.084	0.655
	Marital Status	-6.806	-0.168	-1.575
Demand Variables	Number of Full Dependents	0.671	0.037	0.291
	Number of Partial Dependents	0.377	0.013	0.167
Net Worth				
Resource Variables	**Asset and Summary Variable**			
	Housing Status	-3.417	-0.054	-0.663
Demand Variables	**Debt Variables**			
	Net Worth (Assets – Debts)	1.580E-02	0.010	0.101
Cash Flow				
Resource Variables	**Income Variables**			
	Employment History	-1.149	-0.218	-2.209 *
	Income Sources			
	Self-Employment	6.062	0.090	1.169
	Government Income Support	22.537	0.211	2.347 *
	Government Income Security	-4.370	-0.059	-0.732
	Government Child and Family Benefits	0.419	0.010	0.084
	Spousal and Child Maintenance	9.037	0.147	1.629
	Rental	2.822	0.031	0.404
	Other	17.504	0.185	2.075 *
Demand Variables	**Expense Variables**			
	Total Debt Burden	16.128	0.089	0.777
	Housing Cost Burden	13.498	0.073	0.742
	Transportation Cost Burden	15.913	0.054	0.647
	Planned Program Length	-0.203	-0.197	-2.273 *
Prior Experience with Credit				
Resource Variables	Total number of debts (before OPD)	-1.065E-02	-0.002	-0.021
	Percentages of Total Debt by Debt Type			
	Bank Credit Card	-4.613E-02	-0.057	-0.697
	Retail Credit Card	-8.412E-03	-0.008	-0.098
	Other Financial Institution	-9.894E-02	-0.083	-1.063
	Poor Quality Debt	-6.629E-02	-0.066	-0.698
Model Summary	N	F Statistic	R Square	Significance
	193	1.061	0.137	0.393

Discussion

The purpose of this research was to identify factors associated with debt repayment performance and to determine whether socioeconomic factors can be employed to predict debt repayment performance on Orderly Payment of Debts (OPD). Three main objectives were met in addressing this question: the sample of participants was described, the paid in full and defaulted sub-samples were compared and contrasted, and the predictors of debt repayment performance were identified.

Figure 1: Construct of Debt Repayment Performance



Influencing Factors
Influencing Factors
Household Income
Cash Flow
Household Expenses
Secured Debt Repayment
Orderly Payment of Debts Payments
+
+
Emergency Funds/Savings
Assets
Net Worth
Secured Liabilities
Unsecured Liabilities
Tangible Factors
+
+
Prior Experience with Credit
Coping Ability
Age
Self-Esteem
External Locus of Control
Time Horizon
Personal, Behavioural, And Psychological
Commercial Pressures
Social Pressures
Credit System
Financial Crises
Economic Change
Less Tangible Factors
Net Resources
≥
Net Demands
Successful Debt Repayment Performance on OPD

The conceptual framework proposed that, for debt repayment to be successful, the resources must exceed the demands on the household system such that the OPD participant has adequate ability to satisfy payment requirements over the full duration of the program. The construct of debt repayment performance, outlined in the conceptual framework, indicated the factors influencing net resources and net demands, and the complexity of maintaining their balance. As will be discussed in this chapter, based on the findings, the model illustrated does not adequately represent this complexity. Significant inquiry remains ahead to fully understand all of the tangible and less tangible factors related to debt repayment success and performance. The socioeconomic factors that were available from the OPD documents and examined in this study were classified as either resources or demands. The analyses identified variables of value within the broad factors identified in the conceptual framework: net worth, cash flow, household factors, and prior experience with credit.

Significant Findings

Predictive Ability

Reliable prediction of debt repayment performance from socioeconomic factors was the leading objective of this study and the most significant finding. Models for three of the four measures of success and debt repayment performance were significant: Debt Repayment

Status, Program Length Score, and Program Duration Score. What makes the findings noteworthy is that they predicted between 27% and 46% of the variability in the dependent variables. The model for Debt Repayment Score, the only one that was not statistically significant, measures the proportion of the debt repaid before defaulting. Since many participants repaid almost nothing, lack of variability may explain this lack of significance.

Multivariate Analyses of Predictors of Success

Household.

It was hypothesized that couples on joint programs together would be the most successful at debt repayment, followed by women on individual programs and finally by men on individual programs. Men on individual programs were significantly less likely to complete the program than couples on joint programs; however, the composition of the program was not proven significant on any of the three measures of debt repayment performance, irrespective of marital status.

Age of the participants was not a significant factor in any of the models. Previous research had shown that younger consumers had more difficulty with debt repayment, but most studies included a broader age range that the current study. Age may not have been a factor in these analyses due to limited age variation of the sample.

Number of full dependents and number of partial dependents were not significant, likely because less than half of the sample had either full or partial dependents.

Cash Flow.

On the resource side of households' cash flow, significant results were found for different sources of income for two of the dependent variables. Clients with income from self-employment or government child and family benefits were less likely to complete the program while those with income from other sources were more likely to do so. Income from government income support programs, income from other sources, and percentage of debt repaid prior to default were positively related to Debt Repayment Score. What should be noted about these findings is the roles these types of income appear to play as resources in debt repayment. Self-employment income can be extremely variable and inconsistent. Income that cannot be counted on to be available in a steady stream to meet demands certainly makes debt management difficult. Income from other sources (employment pension) and government income support programs are both consistent. Government income support programs are very minimal subsistence incomes, but they do not fluctuate. Recipients of employment pension, AISH, and SFI incomes can count on steady payments, for the most part on a monthly basis on a fixed date. Whether minimal or substantial in size, the recipients always know what they will have to budget.

Perhaps related to propensity of being laid off, defaulted participants' employment history over the 12 months prior to the OPD program was significantly related to the percentage of debt repaid (Debt Repayment Score) and the percentage of the program completed (Program Duration Score) before defaulting. In both cases each additional month of unemployment was related to poorer debt repayment performance. Participants who were without work in the year before OPD may be more likely to be without work again during the OPD program, especially if a lay-off was at the root of unemployment. Anything that impacts as fundamental a resource as income undoubtedly would affect debt repayment performance. Alternatively, the residual effects of unemployment in the year prior to OPD may impact the demands of participants during the program. During a period of unemployment, particularly over an extended period or involving more than one earner, maintenance on homes or vehicles may be neglected, purchases of consumer goods may be postponed, pantries may be emptied, and emergency savings may be drained. During the assessment process with the counsellor, arrears on housing costs and utilities are addressed, but the consumer may not be cognizant of deferred demands. When those demands surface, participants may not have the resources to cope.

The evidence that stable sources of income were supportive, that an irregular employment history was detrimental, and that household net income was not a factor in debt repayment are indications that income stability may be more important for debt repayment than adequacy. Income that is not fairly constant would impose greater management demands on the participants. Stronger financial skills are necessary to transform inconsistent income into a dependable resource for managing household obligations and OPD payments; otherwise, the demand side of cash flow would require constant adjustment.

Demands related to cash flow comprised basic household expenses, the size of burden those expenses placed on households' resources, and the duration of the burden of debt repayment. With the exception of transportation burden being negatively related to debt repayment status, no other expense or burden was a significant predictor of debt repayment performance. As was discussed, the OPD assessment process may have moderated the effects of variables that would have proven significant in a broader sample.

Planned program length was significantly related to debt repayment status and all three measures of debt repayment performance. Longer programs are detrimental to debt repayment. Since the proportion of the household resources consumed by debt repayment does not increase over the course of the OPD program, it is important to examine whether other aspects of debt repayment on OPD differ from the ongoing burden of household expenses, such as the mortgage or rent, or if consumers are limited in their debt repayment endurance. Two possible explanations are introduced here. First, over the course of longer programs there is a greater probability of major socioeconomic changes. Employment transition or loss, business failure, illness or injury, household changes such as starting or ending relationships, changes in family size, among other major events, may occur for participants during the program. There is also a strong chance of unexpected costs such as those related to repair and maintenance, particularly for homeowners or vehicle owners. The longer the program the more likely participants could face one, if not more, major events that have financial repercussions. During the OPD program, participants cannot rely on credit as a quick solution to an emergency expense or to amortize a sizeable repair. For some participants the changes will be serious enough to preclude continuing on the program and they will default. Although they may get slightly off target, other participants will manage to overcome their financial challenges by rebalancing resources and demands, and will persist with debt repayment. The factors that determine whether participants pull through or fall short are likely related to a combination of the extent of the change in circumstances and the participants' financial management and coping skills.

The second possibility is that OPD debt repayment may be perceived differently from other forms of financing or expense obligations. Mortgages and some other finance agreements such as RRSP loans and some vehicle loans are successfully negotiated over periods greater than five years. An OPD program may be different in how consumers perceive the rewards and consequences of success or failure. When a consumer makes the final payment on a car, house, or RRSP loan, the reward is a measurable asset. Completing an OPD program does not provide a material incentive, and the outcome is the repayment of debt brought about by past spending in excess of resources. After completing, consumers may struggle to rebuild credit and so may face another battle after accomplishing debt repayment. On the other hand, other regular expenses that do not lead to amassing assets, such as rent or vehicle insurance, consumers pay without contention. Instead of a material incentive there can be direct negative consequences to neglecting these expenses. Consumers who do not perceive tangible rewards of debt repayment, and who may not sense the extent and immediacy of the consequences of failure, may view debt repayment as an option, not an obligation.

Prior Experience with Credit.

One category of debt stood ahead of the others in its relationship to debt repayment. Poor quality debt (alternative financial sector, utility, and other) was related to all of the dependent variables. Participants with poor quality debt were less likely to complete the program, required extra time to complete the program when they did pay in full, and repaid a smaller portion of debt, but continued longer on the program, before defaulting. Higher proportions of poor quality debt amplified the effect. Each of the debts included in this category vary from traditional forms of credit. Alternative financial sector debt is extended over a very short term and most agreements are written for one pay period and repayment is required in 14 or 15 days. Loans are generally only a few hundred dollars and repaid as a single instalment of principal, interest, and fees. The rate of interest falls very close to 60% plus fees. Alternative financial sector lenders promote the idea of emergency cash to help the consumer bridge the gap until the next payday. There are no credit checks, generally no collateral, and all that is required is proof of income. In agreements such as these, the consumer borrows $500.00 extra for this two-week period, and then lives on $600.00 (interest and fees included) less for the next two weeks. This is not a realistic repayment schedule for many consumers. This type of borrowing could be viewed as last resort, but for some it is the only option as their borrowing needs cannot be met with traditional lenders.

Utility bills and debts from other sources are typically unpaid consumer services and amounts owed for bounced cheques, not by definition credit agreements. Debts of these types suggest participants did not have the resources, at least temporarily, to meet basic needs. Poor quality debts were critical signs the participant may have been unable to make ends meet, cope with unexpected expenses, budget resources to meet household demands over the whole month, and/or had no emergency savings, and to a certain extent these characteristics point to a lack of financial management skills.

Comparison of Paid in Full and Defaulted Groups

Paid in full and defaulted groups were compared and contrasted to see if they were statistically different. Two noteworthy findings were identified when the groups were examined. First, while the groups were distinct on several factors, the foremost finding was that the sample of OPD participants was fairly homogeneous. Of the 84 variables examined in the comparisons of paid in full and defaulted participants, significant differences were found on only 26 variables. There were no significant differences found on more than $^2/_3$ of the variables studied. Second, the variables that differentiated the two groups were not necessarily the variables that proved to be the best predictors in the multivariate analyses of the measures of success of debt repayment performance. Only the resources of income from self-employment and government child and family benefits and prior experience with poor quality debts, and the demands of number of debts, transportation burden, and program length proved of merit as predictors of debt repayment performance.

Sample Variability

Considering the study as a whole, most predictions based on the literature reviewed were not confirmed. The sample of participants was less economically diverse than anticipated. In retrospect, this was a reasonable outcome of the assessment process preceding the program. The OPD assessment process may have moderated the effects of variables that would have proven significant in a broader sample group.

The OPD program is not suitable for all consumers who have debt. The program is one in a range of options available to the consumer for debt management. The assessment process with a counsellor is intended to identify the ideal debt solutions for each client. The assessment thoroughly reviews the household's income, expenses, assets, and debts and makes recommendations for appropriate debt management strategies. The analysis filters clients into the OPD program or to other options. Clients suited to the program have an income that covers living expenses and leaves sufficient ability to complete debt repayment within about four years (longer with student loans). This narrows the field considerably. Holding cash flow constant, high debt levels would lead the client to a consumer proposal or a bankruptcy and very low debt levels may permit the client to manage on their own with some guidance. Holding debt level constant, low income or high expenses would likely make the client an appropriate referral for a consumer proposal or bankruptcy, whereas a supported and self-directed non-legislative solution may be right for the client with high income or low expenses. Clients whose payments are current, credit scores still relatively strong, or own considerable assets may have unexplored options within the banking system, such as a consolidation loan or mortgage rewrite. The assessment process draws out most high and low extremes of income, expenses, assets, and debts and removes much of the economic variation.

Comparison with Existing Research

A Canadian study of bankrupts and credit counselling clients (Schwartz & Anderson, 1998) was expected to provide the best direct comparison with OPD sample in terms of socioeconomic characteristics. Both samples comprised clients seeking assistance with debt concerns. The bankrupts and credit counselling samples were not drawn at random and much of the information was obtained through participant self-report and thus not to the same level of detail as was available for this study. Notwithstanding dissimilarities in the method, data collected, and the sample process employed, several comparisons were possible. As a group, OPD participants were expected to be more similar to Schwartz & Anderson's (1998) sample of debtors seeking credit counselling than their sample of debtors seeking bankruptcy protection. Even so, compared to both the bankrupt and credit counselling samples, more of the OPD participants were young, male, married, in the labour force, and earning higher medium gross incomes. OPD participants were more similar to the bankrupt sample in the portion without dependents, which was much lower than the credit counselling sample. The OPD sample had a higher median debt load than the counselling group, but lower median debt than the bankrupt group. Overall OPD participants were more similar to the bankrupt sample in age, gender, and marital status, but had somewhat higher incomes on which to support debt at the midpoint level between those of the credit counselling and bankrupt samples.

Limitations

The results of this study are believed to be a fair representation of the population of OPD participants whose programs were complete at the time of data collection. The sample drawn included programs that began as early as 1997 and as late as 2001. Though the sampling design used a random sampling technique, this strategy likely resulted in a sample that under-represents participant who paid in full. Of the most recently registered programs, the sample captures only those participants who defaulted rapidly from the program or paid out extremely early. Many participants who began programs in 2000 and 2001 are continuing to repay their debts, and many will succeed. Repeating the study once all of these participants have finished should reveal a greater proportion of participants who achieved debt repayment success.

Two debt trends were identified in the programs between 1997 and 2001. First, changes in the Bankruptcy and Insolvency Act have occurred in the past five years and the prevalence of student loan debt on programs increased during that time. Second, files with earlier start dates did not have the degree of poor quality debt in general, and alternative financial sector debt in particular, as files that were opened more recently. Presumably to capitalize on demand, prevalence of alternative financial sector lenders in urban areas has surged considerably. The effects of these trends would begin to emerge in the debt portfolios of ongoing and future OPD participants.

While the frequency and amounts of student loan and poor quality debt appear to be increasing, and the sample does not accurately represent the rate of program completion, this would have no impact on the value of the predictability of the factors related to debt repayment success. Without reservation, the factors identified may be effectively employed when working with ongoing and future ODP participants.

Recommendations for Further Research

This study looked at a detailed socioeconomic snapshot of OPD participants in an effort to see if the final outcome of programs was foreseeable. The scope of the project was limited to consideration of the results of consumers' financial behaviour and decision making, not the contributory factors. It is known that OPD participants accessed credit, accumulated debt by spending in excess of income, needed assistance to manage that debt, and elected to use the ODP program to repay. It is not known, from the participants' points of view, why they accessed credit, why they chose those credit products, how they managed their finances, why and when their financial situations grew beyond their control and what strategies they tried to cope under the financial strain. The findings suggest beneficial follow-up research would examine OPD participants' perceptions of behavioural and situational origins of debt problems and/or causes of program delinquency and default. Since socioeconomic factors alone cannot predict debt repayment performance with certainty, social, behavioural, and psychological investigations of the OPD population would advance understanding in the area of debt management.

Implications

Debt repayment performance is a balance between resources and demands, some tangible and some less tangible. In this balance the resource factors of prior experience with credit and the demand of planned program length were established to be of particular importance. In much the same way as a consumer is assessed to be a greater risk of default in a credit application, the consumer's experience with high risk and poor quality debts, makes him/her a poorer prospect for successful debt repayment performance on OPD. Debt repayment stamina is conceptually the challenge of maintaining the balance between demands and resources over a lengthy interval. Persevering through an extended repayment schedule was a formidable challenge for participants. The issue raised two questions. Is a ceiling for the duration a debt repayment program warranted? Or, can the negative consequence of longer programs be mitigated by innovative support strategies?

Of clear advantage to practitioners in supporting clients in their debt repayment endeavours is the ease with which participants who may not perform well on the program may be identified. From a practitioner's perspective, establishing policy limits for program criteria, for program length or debts permitted, would be a flawed solution. To standardize a program length maximum is to suggest that either no beneficial measures to aid participants in sustaining the program are worthwhile or achievable, and/or that all clients are unsuccessful on longer programs. Within reason, clients should be afforded the option of the program to resolve debts. A short-term time horizon was seen in the literature to be a characteristic of people with debt. So, anytime a client's situation would necessitate a longer debt repayment schedule, counselling the client on viewing the program commitment from a long-term time horizon may help them in assessing their own suitability for the program. Longer programs will not always be the right alternative, and effective counselling may be the principal tool to ensure that clients are financially equipped and psychologically prepared for the commitment. CCSA and its counsellors provide support to participants through skill-development workshops and one-on-one direct support and guidance as needed throughout the duration of the program. Many clients proactively seek the assistance of their counsellors at frequent intervals, however not all clients share the same support-seeking efforts. Counsellors follow up with clients if payments are late or missed, and to complete regular financial updates. The education, support and guidance are available to all participants, but unfortunately some will not avail themselves of those resources, leaving practitioners searching for strategies to best meet their clients' needs. The OPD regulations are the standards by which files are consistently administered; however, practitioners can assess the unique needs of the participants and provide tailored support and guidance over the program duration.

Clients need not be precluded from participating in the OPD program because of their prior experience with credit. The number, amount, and proportion of poor quality debts, especially alternative financial sector debts, can be used as a gauge of potential difficulty, not a barrier to program admission. The client's assortment of debts is a directly observable result of prior experience with credit. Practitioners will need to be mindful to ascertain the unique needs of these clients. Since debt, particularly poor quality debt, could result from lack of money management skills and an inability to cope with economic change, a program of reasonable duration and intensive counsellor support, where financial management and budgeting skills can be acquired, may be the ideal rehabilitative environment for the consumer.

The ensuing challenge for practitioners is to devise and implement debt repayment support strategies that meld with the legislation and enhance success and performance on the OPD program. To best meet this challenge and to build on what was learned from this project, further study of less tangible factors related to debt repayment performance should be encouraged. To facilitate opportunities for ongoing research, practitioners may benefit from evaluating and/or augmenting the information collected from participants at the time of the financial assessment and throughout the program. In addition to basic economic information, clients often provide valuable narrative as to the causes of their difficulty, the strategies they attempted to manage their finances, their experiences in managing their debts, their financial goals, and the crises they encountered prior to seeking CCSA's support and guidance. From a counselling perspective, this information is revealing of less tangible social, behavioural, and psychological factors not available from the documents related to the program. Practitioners need to determine and standardize the appropriate modes and themes of inquiry for social, behavioural, and psychological characteristics. To capture this information and permit its inclusion in future investigation, CCSA and other agencies would be prudent in obtaining clients' consents for use of the information contained in their files for research purposes. Understanding of less tangible factors related to debt repayment performance could be advanced by using evaluative tools to gain additional information on clients' skills, knowledge, beliefs, attitudes, and the psychological components of stress and coping. Practitioners must also regard successful clients as an indispensable source of "what it takes" to perform well on the OPD program. Practitioners know clients who succeed despite seemingly overwhelming obstacles. These clients may not only be able to inform practice, perhaps through focus groups, but they could be embraced as credible mentors for future program participants through workshops and agency publications.

The results of this research may be extended beyond CCSA and prove of benefit to other financial counselling practitioners, insolvency practitioners, and lenders. The most direct benefit may be afforded to private for-profit and non-profit credit counselling agencies offering non-legislative debt repayment programs and other provincial providers of the legislated Orderly Payment of Debts program. To a certain degree, these program providers serve clients experiencing a comparable level of financial difficulty as those served by CCSA, and make available debt repayment alternatives that allow clients to fully repay debts. Insolvency practitioners administering Consumer Proposals may also benefit from understanding the predictors of debt repayment performance. Like OPD, Consumers Proposals generally consist of a debt repayment obligation over time, though the participants usually pay back a reduced proportion of their debt as agreed upon by their creditors. The predictors of debt repayment performance on OPD for Alberta participants are expected to be relevant to formal and informal strategies for debt repayment.

Lenders qualify borrowers on the basis of a financial model of economic factors and tangible prior experience with credit as found on the credit report. This type of analysis may not adequately encompass some of the predictors of debt repayment performance. A credit report scores performance on the basis of delinquency and default on agreements. There is no distinction made between the relative "quality" of the credit products consumers have on their credit reports. In addition, credit reports reflect a consumer's performance only on those debts reported by lenders that are members of a particular credit reporting agency. Arrears on utilities, bounced cheques, debts with small lenders, and alternative financial sector debts are frequently not listed on credit reports. With the knowledge that poor quality debt is a good predictor of debt repayment performance, and that the credit report may not reveal some debts, lenders would gain from interviewing potential borrowers about the status of monthly expenses and holdings of unreported poor quality debts during the credit application process.

The results showed three of the four models of success and debt repayment performance were strong. With such persuasive results therein lies a risk that the knowledge of the predictors of debt repayment performance could be misused. This research was the first phase in augmenting understanding of success on OPD, and should be viewed as the basis for ongoing investigation that also delves into the roles of social, behavioural, and psychological factors in debt repayment performance.

Debt repayment performance, all factors considered, is a yardstick of a participant's ability to control resources and demands over time. The merit of the conclusions of this study should not be the prognostic value of the factors related to debt repayment performance, but rather the preventive value that leads to the fostering of debt repayment success.

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